Twin Butte Energy Ltd.

Q3 2008

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008

Highlights of our successful Q3 are as follows:

> **Third quarter production averaged 3,202 boe/d, an increase of 57 percent over the 2,042 boe/d produced in the third quarter of 2007;**

> **Cash flow in the third quarter was $9.9 million, or $0.23 per share, an increase of 204 percent over 2007 and a 92 per cent increase on a per share basis;**

> **Twin Butte drilled 13 gross (13.0 net) wells with a success rate of 85 percent; and**

> **During the quarter the Company cased and completed its first horizontal well in the Montney formation at Brassey, British Columbia. This, and the recent casing of the Kelly Montney/Doig potential gas well, has positioned the Company in one of Western Canada's hottest natural resource plays.**

REPORT TO SHAREHOLDERS

CORPORATE

On November 5th the Company announced the appointment of Mr. Jim Saunders as President and C.E.O. following the resignation of Ron Cawston from this position. Mr. Saunders has been the Company's Chairman since inception and brings 26 years of diversified oil and gas experience to the position. Mr. Saunders has been directly involved with the establishment or acted as C.E.O. of five successful junior exploration companies over the past twelve years.

With his move into an executive position, Jim has resigned from his position as Chairman of the Board and his committee positions, but will continue as a director. The Governance committee will provide a recommendation on the Chairman role in the near future.

The Company is also pleased to announce the following additions to our executive team:

> Mr. Neil Cathcart has been appointed Vice President, Exploration. Mr. Cathcart brings 20 years of successful Western Canadian exploration experience to the Company. Firstly a proven oil and gas finder, Neil has also demonstrated his business acumen through his leadership roles in a number of successful oil and gas companies.

> Mr. Colin Ogilvy is appointed Vice President, Land. Mr. Ogilvy brings 30 years of successful deal making experience to the Company, and he will play a key role in the Company's ongoing corporate development function. Colin has not only managed a number of successful junior oil and gas exploration companies but has excelled in all aspect of the land business.

OPERATIONAL REVIEW

During the third quarter of 2008 Twin Butte continued to set new production records and completed one of the most active quarters in Company history.

The Company's third quarter production averaged 3,202 boe/d, comprised of 69 percent natural gas and 31 percent light oil and natural gas liquids representing an increase of 57 percent over the third quarter 2007 average of 2,042 boe/d. With ongoing completion and tie in operations we anticipate continued production growth through year end.

The Company completed a net capital program of $17.6 million during the quarter including the drilling of 13 gross (13.0 net) wells with an 85 percent success rate. Areas of focus included the Montney earning well at Brassey and a well at Lagarde in NE British Columbia, as well as a 5 well drilling program at Bulwark, 1 well at Thunder, a 2 well program at Provost, 1 well at Galahad and a 2 well program at Richdale. Ongoing completion and tie in activities are underway in most of these areas.

North East British Columbia

Although it currently only represents approximately 15 percent of corporate production NE BC has been a focal point for executed and planned capital programs.

At Lagarde a successful Q3 Baldonnel gas well will be on stream prior to year end with an offset well planned for early 2009. A 3 well drilling program at Oak in early 2009 will target both Baldonnel and Halfway targets. These wells offset existing producing wells and are considered to be developmental in nature with production additions anticipated to commence late in Q1 2009.

The Company has been active for the past number of months on our Montney play. With the Brassey well cased, completed, and currently being tied in for production and the recent casing of our Kelly well, the Company has positioned itself with in excess of 10 net sections of prospective lands in one of Western Canada's hottest resource plays. Although a significant portion of Company's 2008 capital program has been spent on these resource play earning wells we believe these plays represents a significant growth opportunity for Twin Butte shareholders. We are however cognizant that plays of this nature require appropriate capitalization to fully evaluate and monetize their long term potential. With the significant land tenure of five years we will methodically evaluate and develop these assets as conditions permit.

North West Alberta

Twin Butte drilled one well and recompleted one well in the Thunder area during the third quarter, resulting in a new oil pool discovery as well as a currently producing gas well. Subject to ongoing performance and a 3D seismic survey over the oil discovery a potential multi well oil development program in 2009 looks promising.

At Jayar, the Company continues to optimize production from the Dunvegan multifrac horizontal well drilled in Q2 of this year. The Company is planning a second horizontal well which is scheduled to be drilled in the first quarter of 2009.

Plains Area

At Bulwark, the Company drilled five wells in Q3 which resulted in four oil, and one gas well. Development of this Viking light oil pool continues to deliver positive results with additional drilling and possible water flood implementation planned for 2009.

At Provost, the Company plans to drill 5 to 8 additional horizontal wells in 2009 following a successful 4 well 2008 program. The Dina RR pool contains an estimated 10 million bbls of original oil in place ("OOIP") with only 120,000 bbls recovered to date from existing production wells.

Twin Butte continues to grow its undeveloped land base which now stands at over 150,000 net acres including the 10 net sections of Montney lands in NE British Columbia. The Company continues to fully exploit its existing land base and to evaluate land expansion opportunities through farm-in and crown sale opportunities.

OUTLOOK

The current commodity price environment in combination with continued unrest in global equity markets will present challenges for the foreseeable future for all oil and gas producers, especially small cap companies. These conditions should provide the catalyst for Boards and Management Teams to look internally and evaluate their futures. We have done this at Twin Butte and feel confident in the Company's ability to survive and grow during these uncertain times.

With in excess of 150,000 net undeveloped acres of land and a multiyear drilling inventory we can continue to grow while maintaining or enhancing our balance sheet. Our strengthened management team combined with a significant tax pool advantage should lead to consolidation opportunities which will provide greater cash flow to capitalize on our numerous opportunities. The Company will live within its cash flow while continuing to evaluate and enhance its core land holdings.

As shareholders, management and our Board will continue to focus on fundamentals and net asset value accretion.

On behalf of the Board of Directors and staff,

Jim Saunders
President and Chief Executive Officer
November 13, 2008

Reader Advisory

Certain information regarding Twin Butte set forth in this 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 report are made as at the date of this report 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 Q3 Report, 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 nine months ended September 30, 2008.

	Three months ended September 30			Nine months ended September 30		
	2008	2007	% Change	**2008**	2007	% Change
FINANCIAL ($ thousands, except per share amounts)						
Petroleum and natural gas sales	**20,235**	8,060	151%	**55,942**	20,795	169%
Cash flow (1)	**9,895**	3,254	204%	**25,853**	8,970	188%
Per share basic & diluted	**0.23**	0.12	92%	**0.62**	0.39	62%
Net income (loss)	**5,909**	(4,818)		**1,405**	(5,251)	
Per share basic & diluted	**0.14**	(0.18)		**0.03**	(0.23)	
Capital expenditures (net of dispositions)	**17,623**	3,615	387%	**33,161**	43,988	(25)%
Corporate acquisitions (2)	**–**	–		**57,252**	–	
Net debt (3)	**51,073**	22,823	124%	**51,073**	22,823	124%
OPERATING						
Average daily production						
Crude oil (bbl per day)	**847**	382	122%	**724**	338	114%
Natural gas (Mcf per day)	**13,298**	9,483	40%	**12,409**	7,197	72%
Natural gas liquids (bbl per day)	**139**	79	76%	**126**	64	97%
Barrels of oil equivalent (boe per day, 6:1)	**3,202**	2,042	57%	**2,919**	1,601	82%
Average sales price						
Crude oil ($ per bbl)	**113.51**	77.21	47%	**108.29**	70.96	53%
Natural gas ($ per Mcf)	**8.34**	5.54	51%	**9.21**	6.68	38%
Natural gas liquids ($ per bbl)	**92.54**	70.40	31%	**90.76**	64.30	41%
Barrels of oil equivalent ($ per boe, 6:1)	**68.69**	42.91	60%	**69.95**	47.57	47%
Operating netback ($ per boe)						
Petroleum and natural gas sales	**68.69**	42.91	60%	**69.95**	47.57	47%
Realized (loss) gain on financial instruments	**(3.88)**	3.07		**(5.43)**	1.60	
Royalties	**(12.59)**	(9.08)	39%	**(11.54)**	(9.64)	20%
Operating Expenses	**(11.90)**	(11.86)	–%	**(12.28)**	(11.55)	6%
Transportation Expenses	**(2.45)**	(2.47)	–%	**(2.71)**	(2.48)	9%
Operating netback	**37.87**	22.57	68%	**37.99**	25.50	49%
Wells drilled						
Gross	**13.0**	4.0	225%	**20.0**	13.0	54%
Net	**13.0**	2.9	348%	**19.9**	10.4	91%
Success (%)	**85%**	100%		**90%**	100%	
COMMON SHARES						
Shares outstanding, end of period	**43,424,425**	27,752,398	56%	**43,424,425**	27,752,398	56%
Weighted average shares outstanding	**43,424,425**	26,726,855	63%	**41,189,826**	23,115,992	78%

(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 September 30, 2008 excludes financial derivative contracts asset and liability in the amount of $45 thousand net asset (September 30, 2007 - $0.6 million net liability). The net asset (liability) relates to an unrealized gain (loss) on financial derivative contracts recognized at the period end.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as of November 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 nine months ended September 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 September 30		Nine months ended September 30	
	2008	2007	**2008**	2007
Average Twin Butte Realized Commodity Prices (1)				
Crude oil ($ per bbl)	**113.51**	77.21	**108.29**	70.96
Natural gas ($ per Mcf)	**8.34**	5.54	**9.21**	6.68
Natural gas liquids ($ per bbl)	**92.54**	70.40	**90.76**	64.30
Barrels of oil equivalent ($ per boe, 6:1)	**68.69**	42.91	**69.95**	47.57

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

Benchmark Pricing				
WTI crude oil (US$ per bbl)	**118.21**	75.38	**113.34**	66.10
WTI crude oil (Cdn$ per bbl)	**123.15**	78.74	**115.45**	73.03
AECO natural gas (Cdn$ per Mcf) (2)	**7.81**	5.19	**8.72**	6.60
Exchange rate – US$/Cdn$	**1.0418**	1.0446	**1.0186**	1.1048

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

Revenue				
$ 000's				
Crude oil	**8,841**	2,712	**21,493**	6,551
Natural gas	**10,208**	4,833	**31,314**	13,128
Natural gas liquids	**1,186**	514	**3,135**	1,116
Total petroleum and natural gas sales	**20,235**	8,060	**55,942**	20,795
Average Daily Production				
Crude oil & natural gas liquids (bbl/day)	**986**	461	**850**	402
Natural gas (Mcf/day)	**13,298**	9,483	**12,409**	7,197
Total (boe/d)	**3,202**	2,042	**2,919**	1,601
% natural gas production	**69%**	77%	**71%**	75%

Revenues for the three months ended September 30, 2008 were $20.2 million, as compared to $8.1 million for the three months ended September 30, 2007 representing an increase of $12.1 million or 151%. The increase in revenue is attributed to third quarter average production increasing by 57% to 3,202 boe/d in 2008 from 2,042 boe/d in 2007 as a result of a corporate acquisition and organic production growth. Additionally, the increased revenue is due to a 60% increase in the average realized commodity price from $42.91 per boe in 2007 to $68.69 per boe in 2008.

Revenues for the nine months ended September 30, 2008 were $55.9 million as compared to $20.8 million in the prior year comparative period, representing an increase of 169%. This increase is due to a 82% increase in average production volumes, and a 47% increase in average realized prices.

Production for the third quarter consists of 1,223,413 Mcf of gas, 77,889 bbl of oil and 12,811 bbl of natural gas liquids, for a total of 294,602 boe. The Company's sales volumes were 69% natural gas for the third quarter and 71% natural gas for the nine month period ended September 30, 2008. This compares to 77% and 75% in the prior year comparative periods.

ROYALTIES

Royalties for the three months ended September 30, 2008 were $3.7 million, as compared to $1.7 million for the three months ended September 30, 2007. As a percentage of revenues, the average royalty rate for the third quarter of 2008 was 18% compared to 21% for the comparative period of 2007. Royalties for the nine months ended September 30, 2008 were $9.2 million as compared to $4.2 million for the prior year comparative period. As a percentage of revenues, the average royalty rate for the nine months ended September 30, 2008 was 16% compared to 20% for the comparative period of 2007.

Year to date, 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 to 18 percent.

OPERATING EXPENSES

Operating expenses were $3.5 million or $11.90 per boe for the quarter ended September 30, 2008 as compared to $2.2 million or $11.86 per boe for the three months ended September 30, 2007. Operating expenses were $9.8 million or $12.28 per boe for the nine months ended September 30, 2008 as compared to $5.1 million or $11.55 per boe for prior year comparative period.

Operating costs on a per boe basis have increased in 2008 compared to the nine month period ended September 30, 2007 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 nine months of 2008 on a per boe basis.

TRANSPORTATION EXPENSES

Transportation expenses for the three months ended September 30, 2008 were $0.7 million or $2.45 per boe compared to $0.5 million or $2.47 per boe in the prior year comparative quarter. Transportation expenses for the nine months ended September 30, 2008 were $2.2 million or $2.71 per boe compared to $1.1 million or $2.48 per boe in the prior year comparative period. Increases in total transportation expenses are the result of increased production volumes. 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

($ thousands)	Three months ended September 30		Nine months ended September 30	
	2008	2007	**2008**	2007
G&A expenses	**1,308**	828	**4,471**	2,413
Recoveries	**(43)**	(57)	**(250)**	(244)
Capitalized G&A expenses	**(458)**	(172)	**(1,368)**	(538)
Total net G&A expenses	**807**	599	**2,853**	1,631
Total net G&A expenses ($ per boe)	**2.74**	3.19	**3.57**	3.73

General and administrative expenses, net of recoveries and capitalized G&A, were $0.8 million, or $2.74 per boe for the current quarter as compared to $0.6 million or $3.19 per boe in the prior year comparative quarter. General and administrative expenses, net of recoveries and capitalized G&A, were $2.9 million, or $3.57 per boe for the nine months ended September 30, 2008 as compared to $1.6 million or $3.73 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.

STOCK BASED COMPENSATION EXPENSE

During the three month period ended September 30, 2008, the Company recognized stock based compensation expense in the amount of $0.2 million, as compared to stock based compensation expense of $0.2 million in three month period ended September 30, 2007. During the nine month period ended September 30, 2008, the Company recognized stock based compensation expense in the amount of $1.6 million, as compared to stock based compensation expense of $0.4 million in nine month period ended September 30, 2007.

Stock based compensation expense in the current quarter is consistent with the prior year comparative quarter. The increase in stock based compensation expense for the nine month period September 30, 2008 as compared to the prior year comparative period 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 September 30, 2008, interest expense was $0.4 million, consistent with interest expense of $0.4 million in the prior year comparative quarter. For the nine months ended September 30, 2008, interest expense was $1.7 million, an increase of $1.2 million from $0.5 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 in the first quarter.

UNREALIZED AND REALIZED GAINS (LOSSES) ON FINANCIAL DERIVATIVE CONTRACTS

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 $1.1 million ($3.88/boe) for the three month period ended September 30, 2008 as compared to a $0.6 million ($3.07/boe) realized gain for the prior year comparative period. For the nine month period ended September 30, 2008, the Company has recognized a realized loss on financial derivatives in the amount of $4.3 million ($5.43/boe) compared to a $0.7 million ($1.60/boe) realized gain for the prior year comparative period. The realized loss on financial derivatives for the three month period ended September 30, 2008 amounted to $456,878 for natural gas sales price derivative contracts and $686,844 for crude oil sales price derivative contracts. The realized loss on financial derivatives for the nine month period ended September 30, 2008 amounted to $2,335,386 for natural gas sales price derivative contracts and $2,005,182 for crude oil sales price derivative contracts.

As at September 30, 2008, the Company has recognized an unrealized financial derivative contracts asset in the amount of $79,114 and an unrealized financial derivative contracts liability in the amount of $33,832. The Company has recognized an unrealized gain on financial derivative contracts in the amount of $0.6 million for the nine month period ended September 30, 2008 and $8.1 million for the three month period ended September 30, 2008. The following is a summary of all natural gas and crude oil sales price derivative contracts in effect as at September 30, 2008 and their related fair market values (unrealized gain (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	October 1 to December 31, 2008	$6.500	$ (15,876)
2,500	October 1 to October 31, 2008	$6.450	$ (3,225)
1,000	October 1 to December 31, 2008	$6.640	$ 29,465
1,000	October 1 to October 31, 2008	$7.075	$ 68,750
Natural gas fair value position			$ 79,114

As at October 31, 2008 the marked-to-market value of the Company's natural gas sales price derivative contracts was an asset of approximately $0.1 million. The asset value at October 31 is consistent with the September 30 value primarily due to consistent 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	October 1 to December 31, 2008	US $70.65		$ (394,731)
60	October 1 to December 31, 2008	US $87.25		(108,512)
100	October 1 to December 31, 2008		US $90.00 – US $120.00	9,104
100	January 1 to December 31, 2009		US $100.00 – US $195.00	460,307
Crude oil fair value position				$ (33,832)

As at October 31, 2008 the marked-to-market value of the Company's crude oil sales price derivative contracts was an asset of USD $1.4 million. The significant change from a liability to an asset value of USD $1.4 million is due to the significant reduction in future market WTI oil prices.

DEPLETION, DEPRECIATION AND ACCRETION EXPENSE

For the three month period ended September 30, 2008, depletion and depreciation of capital assets and the accretion of the asset retirement obligations was $8.7 million or $28.90 per boe compared to $5.8 million or $30.51 per boe for the three month period ended September 30, 2007. For the nine month period ended September 30, 2008, depletion and depreciation of capital assets and the accretion of the asset retirement obligations was $22.5 million or $27.60 per boe compared to $13.8 million or $31.08 per boe for the nine month period ended September 30, 2007.

The increase in depletion, depreciation and accretion expense for the three month and nine month periods ended September 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 third quarter of 2008 at a lower cost than historic first, second and third quarter 2007 depletion, depreciation and accretion expense per boe.

INCOME TAXES

Future income tax expense amounted to $3.1 million for the three month period ended September 30, 2008 compared to future income tax expense in the amount of $2.0 million for the three month period ended September 30, 2007. Future income tax expense amounted to $0.9 million for the nine month period ended September 30, 2008 compared to future income tax recovery in the amount of $0.2 million for the nine month period ended September 30, 2007. The Company has existing tax losses and pools of approximately $197.0 million.

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

Cash flow from operations for the three month period ended September 30, 2008 was $9.9 million, an increase of 204% from third quarter 2007 cash flow of $3.3 million. Cash flow per share basic and diluted amounted to $0.23 for the third quarter of 2008, an increase of 92% from $0.12 in the third quarter of 2007.

Cash flow from operations for the nine month period ended September 30, 2008 was $25.9 million, an increase of 188% from the prior year comparative period cash flow of $9.0 million. Cash flow per share basic and diluted amounted to $0.63 for the nine month period ended September 30, 2008, an increase of 62% from $0.39 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 income and comprehensive income of $5.9 million for the three month period ended September 30, 2008, equating to a basic and diluted net income per share of $0.14, compared to a net loss and comprehensive loss of $4.8 million for the three month period ended September 30, 2007, equating to a basic and diluted net loss per share of $0.18. The net income and comprehensive income of $5.9 million for the three month period ended September 30, 2008 includes non cash items including depletion, depreciation and accretion expense of $8.7 million, future income tax expense of $3.1 million, unrealized gain on financial derivative contracts of $8.1 million, and stock based compensation expense $0.2 million.

The Company posted net income and comprehensive income of $1.4 million for the nine month period ended September 30, 2008, equating to a basic and diluted net income per share of $0.03, compared to a net loss and comprehensive loss of $5.3 million for the prior year comparative period, equating to a basic and diluted net loss per share of $0.23.

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

($ per boe)	**Q3 2008**	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006
Petroleum and natural gas sales	**68.69**	78.91	60.67	49.55	42.91	51.38	50.76	48.48
Royalties	**(12.59)**	(11.15)	(10.64)	(9.99)	(9.08)	(10.52)	(9.55)	(7.21)
Realized gain (loss) on financial instruments	**(3.88)**	(9.30)	(2.71)	(0.84)	3.07	0.93	–	–
Operating expenses	**(11.90)**	(13.58)	(11.17)	(12.89)	(11.86)	(10.96)	(11.73)	(11.38)
Transportation expenses	**(2.45)**	(2.88)	(2.83)	(2.54)	(2.47)	(2.31)	(2.69)	(2.77)
Operating netback	**37.87**	42.00	33.32	23.29	22.57	28.52	26.79	27.12
General and administrative expenses	**(2.74)**	(3.53)	(4.69)	(3.70)	(3.19)	(4.25)	(4.03)	(5.19)
Interest expense	**(1.53)**	(1.81)	(3.21)	(1.96)	(2.07)	(0.77)	(0.47)	(1.42)
Cash flow from operations	**33.60**	36.66	25.42	17.63	17.31	23.50	22.29	20.51

QUARTERLY FINANCIAL SUMMARY

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

($ thousands, except per share amounts)	**Q3 2008**	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006
Average production (boe/d)	**3,202**	3,051	2,500	2,006	2,042	1,445	1,309	1,089
Petroleum and natural gas sales	**20,235**	21,907	13,800	9,146	8,060	6,755	5,981	4,855
Operating netback (per boe)	**37.85**	42.00	33.32	23.29	22.57	28.52	26.79	27.12
Cash flow from operations	**9,895**	10,178	5,780	3,255	3,254	3,091	2,626	2,054
Per share basic & diluted	**0.23**	0.23	0.16	0.12	0.12	0.14	0.13	0.11
Net income (loss)	**5,909**	(1,753)	(2,751)	4,272	(4,818)	3,483	(3,915)	(881)
Per share basic & diluted	**0.14**	(0.04)	(0.07)	0.15	(0.18)	0.16	(0.19)	(0.07)
Corporate acquisitions	**–**	–	57,252	–	–	–	–	–
Capital expenditures (net of dispositions)	**17,623**	7,025	8,487	3,671	3,615	31,981	8,391	9,581
Total assets	**189,613**	187,172	186,685	120,151	112,804	116,389	81,899	78,697
Net debt excluding financial derivative contracts liability	**51,073**	43,230	46,297	23,242	22,823	38,042	9,001	14,558

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 third quarter of 2008 were $17.6 million, compared to $3.6 million for the comparable period in 2007. In the third quarter of 2008, 13 wells (13.0 net) were drilled for a success rate of 100 percent. The Company's capital expenditures for the nine month period ended September 30, 2008 amounted to $33.2 million. The Company's expects to spend between $43.0 to $45.0 million on the 2008 capital program.

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

Capital Expenditures ($ thousands)	Three months ended September 30		Nine months ended September 30	
	2008	2007	**2008**	2007
Land acquisition	**579**	676	**1,515**	1,633
Geological and geophysical	**298**	169	**1,023**	567
Drilling and completions	**14,565**	1,578	**25,183**	8,346
Equipping and facilities	**1,728**	1,016	**3,998**	4,953
Property acquisitions	**–**	–	**–**	28,404
Property dispositions	**–**	–	**–**	(466)
Other	**453**	176	**1,442**	551
Total net capital expenditures	**17,623**	3,615	**33,161**	43,988

Drilling Results

	Three months ended September 30				Nine months ended September 30			
	2008		2007		**2008**		2007	
	Gross	**Net**	Gross	Net	**Gross**	**Net**	Gross	Net
Crude oil	**9.0**	**9.0**	2.0	1.4	**13.0**	**12.9**	6.0	4.5
Natural gas	**2.0**	**2.0**	2.0	1.5	**5.0**	**5.0**	7.0	5.9
Dry and abandoned	**2.0**	**2.0**	–	–	**2.0**	**2.0**	–	–
Total	**13.0**	**13.0**	4.0	2.9	**20.0**	**19.9**	13.0	10.4
Success rate (%)		**85%**		100%		**90%**		100%

Undeveloped Land

	September 30	
	2008	2007
Gross Acres	**184,291**	86,449
Net Acres	**146,132**	61,018

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

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2008, the Company had net debt of $51.1 million, excluding a net financial derivative contracts asset in the amount of $45 thousand relating to a net unrealized gain on financial derivative contracts recognized at September 30, 2008. The Company's debt to annualized third quarter 2008 cash flow is 1.29 times. As at September 30, the Company had a credit facility with a Canadian chartered bank in the amount of $65.0 million. The credit facility is composed of a $65.0 million demand revolving operating credit facility. The Company is able to fund the 2008 budgeted capital program from cash flow and existing credit facilities.

SHARE CAPITAL

At September 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 November 13, 2008 the Company currently has 43,424,425 Common Shares and 2,591,000 stock options outstanding.

CONTRACTUAL OBLIGATIONS

The issuance of flow through shares in February 2007 for proceeds of $12.0 million will require the Company to spend $12.0 million of flow-through share eligible Canadian Exploration Expenditures, as defined in the Canadian Income Tax Act, by December 31, 2008. As at September 30, 2008 the Company has incurred the full amount of the 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 nine month period ended September 30, 2008, the Company incurred costs totaling $438 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.

BALANCE SHEETS

(unaudited)

	September 30 2008	December 31 2007
ASSETS		
Current Assets		
Accounts receivable	**$ 8,520,544**	$ 5,727,286
Deposits and prepaid expenses	**1,481,568**	558,263
Financial derivative contracts (note 8)	**79,114**	266,898
	10,081,226	6,552,447
Future income taxes	**4,169,800**	9,164,477
Property and equipment (note 3)	**175,362,417**	104,433,701
	$ 189,613,443	$ 120,150,625
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 24,314,036**	$ 8,278,779
Bank indebtedness (note 4)	**36,761,120**	21,248,583
Financial derivative contracts (note 8)	**33,832**	827,135
	61,108,988	30,354,497
Asset retirement obligation (note 5)	**9,242,581**	6,945,541
	70,351,569	37,300,038
Shareholders' Equity		
Share capital (note 6)	**127,110,271**	93,722,668
Contributed surplus (note 6)	**2,633,439**	1,014,991
Deficit	**(10,481,836)**	(11,887,072)
	119,261,874	82,850,587
	$ 189,613,443	$ 120,150,625

Commitments (note 9)

See accompanying notes to financial statements

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

(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2008	2007	**2008**	2007
REVENUE:				
Petroleum and natural gas sales	**$ 20,235,005**	$ 8,059,611	**$ 55,941,839**	$ 20,795,462
Royalties	**(3,710,241)**	(1,704,854)	**(9,227,233)**	(4,213,287)
Realized (loss) gain on financial derivatives	**(1,143,722)**	577,607	**(4,340,568)**	700,063
Unrealized gain (loss) on financial derivative contracts (note 8)	**8,073,479**	(37,997)	**605,519**	(158,970)
	23,454,521	6,894,367	**42,979,557**	17,123,268
EXPENSES:				
Operating	**3,505,915**	2,226,958	**9,817,689**	5,050,720
Transportation	**722,995**	463,310	**2,166,354**	1,083,468
General and administrative	**806,727**	598,547	**2,852,552**	1,631,378
Stock based compensation	**238,703**	183,163	**1,621,433**	447,474
Interest	**449,975**	389,460	**1,684,870**	546,317
Depletion, depreciation and accretion	**8,679,261**	5,842,229	**22,526,203**	13,790,773
	14,403,576	9,703,667	**40,669,101**	22,550,130
Income (loss) before income taxes	**9,050,945**	(2,809,300)	**2,310,456**	(5,426,862)
Income taxes				
Future tax expense (recovery)	**3,142,400**	2,009,097	**905,220**	(175,972)
	3,142,400	2,009,097	**905,220**	(175,972)
Net income (loss) and comprehensive income (loss)	**5,908,545**	(4,818,397)	**1,405,236**	(5,250,890)
Deficit, beginning of period	**(16,390,381)**	(11,340,768)	**(11,887,072)**	(10,908,275)
Deficit, end of period	**$ (10,481,836)**	$ (16,159,165)	**$ (10,481,836)**	$ (16,159,165)
Basic & diluted income (loss) per share	**$ 0.14**	$ (0.18)	**$ 0.03**	$ (0.23)
Weighted average common shares outstanding				
Basic	**43,424,425**	26,726,855	**41,189,826**	23,115,992
Diluted	**43,576,856**	26,726,855	**41,413,680**	23,115,992

See accompanying notes to financial statements

STATEMENTS OF CASH FLOWS

(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2008	2007	**2008**	2007
Cash provided by (used in):				
OPERATIONS:				
Net income (loss)	**$ 5,908,545**	$ (4,818,397)	**$ 1,405,236**	$ (5,250,890)
Items not involving cash:				
Depletion, depreciation and accretion	**8,679,261**	5,842,229	**22,526,203**	13,790,773
Future tax expense (recovery)	**3,142,400**	2,009,097	**905,220**	(175,972)
Unrealized (gain) loss on financial derivative contracts	**(8,073,479)**	37,997	**(605,519)**	158,970
Stock based compensation	**238,703**	183,163	**1,621,433**	447,474
	9,895,430	3,254,089	**25,852,573**	8,970,355
Expenditures on asset retirement obligations	**(54,976)**	–	**(167,975)**	–
Changes in non-cash working capital	**2,321,188**	(432,267)	**(4,689,216)**	1,436,716
	12,161,642	2,821,822	**20,995,382**	10,407,071
FINANCING:				
Change in bank indebtedness	**(1,139,930)**	(15,704,872)	**(252,463)**	14,476,773
Issuance of share capital on exercise of stock options	**–**		**26,190**	
Bank financing and share issue costs	**(60,000)**	15,580,067	**(93,750)**	26,751,459
Changes in non-cash working capital	**–**	–	**–**	–
	(1,199,930)	(124,805)	**(320,023)**	41,228,232
INVESTING:				
Expenditures on property and equipment	**(17,623,015)**	(3,615,146)	**(33,161,280)**	(44,453,432)
Acquisition expenditures	**–**	–	**(362,668)**	–
Proceeds on disposition of property and equipment	**–**	–	**–**	465,721
Changes in non-cash working capital	**6,661,303**	918,129	**12,848,589**	(7,647,592)
	(10,961,712)	(2,697,017)	**(20,675,359)**	(51,635,303)
Decrease in cash and cash equivalents	**–**	–	**–**	–
Cash and cash equivalents, beginning of period	**–**	–	**–**	–
Cash and cash equivalents, end of period	**$ –**	$ –	**$ –**	$ –
Cash interest paid	**$ 413,993**	$ 411,544	**$ 1,467,426**	$ 544,562

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

September 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.

In February 2008, the Accounting Standards Board confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP in 2011 for publicly accountable enterprises. Accordingly, Twin Butte will be required to report its results under IFRS starting in 2011 with comparative figures for 2010.

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

			September 30, 2008	December 31, 2007
	Cost	Accumulated Net Depletion & Depreciation	**Net Book Value**	Net Book Value
Petroleum and natural gas properties	$ 223,452,806	$ 48,212,139	**$ 175,240,667**	$ 104,352,054
Office and computer equipment	190,146	68,396	**121,750**	81,647
Total	$ 223,642,952	$ 48,280,535	**$ 175,362,417**	$ 104,433,701

The Company has capitalized $1,368,091 of general and administrative expenses directly related to exploration and development activities for the nine month period ended September 30, 2008 ($537,937 - September 30, 2007).

The cost of undeveloped property excluded from the depletion base as at September 30, 2008 was $19,573,214 ($8,158,643 – December 31, 2007). Future development costs on proved undeveloped reserves of $8,425,900 as at September 30, 2008 are included in the calculation of depletion and depreciation ($13,457,000 – December 31, 2007).

4. BANK INDEBTEDNESS

As at September 30, 2008, the Company had a $65.0 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 $65.0 million demand revolving operating 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%. The credit facility is secured by a demand debenture and a general security agreement covering all assets of the Company.

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 $9,242,581 at September 30, 2008, based on a total future liability of $16,512,000. 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:

	Nine Months Ended September 30, 2008	Year Ended December 31, 2007
Asset retirement obligation, beginning of period	**$ 6,945,541**	$ 3,073,325
Liabilities incurred	**482,302**	540,749
Liabilities settled	**(167,975)**	–
Acquisitions	**1,913,109**	3,521,094
Liabilities related to property dispositions	**–**	(35,940)
Revisions in estimated cash outflows	**(350,861)**	(403,449)
Accretion of asset retirement obligation	**420,465**	249,762
Asset retirement obligation, end of period	**$ 9,242,581**	$ 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	–	(66,094)
Balance, September 30, 2008	**43,424,425**	**$ 127,110,271**

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 September 30, 2008:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2007	1,805,000	$ 3.15
Granted	3,184,000	2.79
Exercised	(9,000)	2.91
Cancelled	(1,916,000)	3.45
Outstanding at September 30, 2008	**3,064,000**	**$ 2.79**

There were 9,000 options exercisable as at September 30, 2008. The 3,064,000 options outstanding at September 30, 2008 have a weighted average remaining contractual life of 4.51 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.

	Nine Month Period Ended September 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	**697,039**	599,278
Stock based compensation for stock options cancelled	**1,002,738**	–
Stock based compensation for stock options forfeited	**(78,345)**	–
Stock based compensation for stock options exercised	**(2,984)**	–
Contributed surplus balance at end of period	**$ 2,633,439**	$ 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 nine month period ended September 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	$1.06

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 September 30		Nine months ended September 30	
	2008	2007	**2008**	2007
Weighted average number of basic shares	**43,424,425**	26,726,855	**41,189,826**	23,115,992
Effect of dilutive securities:				
Employee stock options	**152,431**	–	**223,854**	–
Weighted average number of diluted shares	**43,576,856**	26,726,855	**41,413,680**	23,115,992

7. RELATED PARTY TRANSACTIONS

During the nine month period ended September 30, 2008, the Company incurred costs totaling $437,882 (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 September 30, 2008, the Company has $321,081 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 September 30, 2008		As at December 31, 2007	
	Carrying Amount	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
Financial Assets				
Risk management assets	**$ 79,114**	**$ 79,114**	$ 266,898	$ 266,898
Accounts receivable	**8,520,544**	**8,520,544**	5,727,286	5,727,286
Financial Liabilities				
Risk management liabilities	**$ 33,832**	**$ 33,832**	$ 827,135	$ 827,135
Accounts payable and accrued liabilities	**24,314,036**	**24,314,036**	8,278,779	8,278,779
Bank indebtedness	**36,761,120**	**36,761,120**	21,248,583	21,248,583

Risk Management Assets and Liabilities

Net Risk Management Position

	September 30, 2008	December 31, 2007
Risk Management		
Current asset	**$ 79,114**	$ 266,898
Current liability	**(33,832)**	(827,135)
Net Risk Management Asset (Liability)	**$ 45,282**	$ (560,237)

Summary of Unrealized Risk Management Positions

	As at September 30, 2008			As at December 31, 2007		
	Asset	**Liability**	**Net**	Asset	Liability	Net
Commodity Prices						
Natural gas	**$ 98,215**	**$ (19,101)**	**$ 79,114**	$ 266,898	$ –	$ 266,898
Crude oil	**469,412**	**(503,244)**	**(33,832)**	–	(827,135)	(827,135)
Total Fair Value	**$ 567,627**	**$ (522,345)**	**$ 45,282**	$ 266,898	$ (827,135)	$ (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 September 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	October 1 to December 31, 2008	$6.500	$ (15,876)
2,500	October 1 to October 31, 2008	$6.450	$ (3,225)
1,000	October 1 to December 31, 2008	$6.640	$ 29,465
1,000	October 1 to October 31, 2008	$7.075	$ 68,750
Natural gas fair value position			$ 79,114

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	October 1 to December 31, 2008	US $70.65		$ (394,731)
60	October 1 to December 31, 2008	US $87.25		(108,512)
100	October 1 to December 31, 2008		US $90.00 – US $120.00	9,104
100	January 1 to December 31, 2009		US $100.00 – US $195.00	460,307
Crude oil fair value position				$ (33,832)

Reconciliation of Unrealized Risk Management Positions from January 1 to September 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	**4,946,087**	**4,946,087**
Fair Value of Contracts Realized During the Period	**(4,340,568)**	**(4,340,568)**
Fair Value of Contracts, End of Period	**$ 45,282**	**$ 605,519**

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 September 30, 2008 the Company did not have any interest rate swaps or hedges in place.

- **Foreign Exchange Risk**
  The Company 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 nine months ended September 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 $134 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 $158 thousand additional cash flow from operations. An increase by 1.0% to the bank interest rate would have resulted in approximately $329 thousand less cash flow from operations. However, the above sensitivity results for crude oil, 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 September 30, 2008, the Company had financial derivative contract agreements with two counterparties. The Company is in a receivable position with 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 September 30, 2008, the Company had available unused bank credit facilities from the demand revolving operating credit facility in the amount of $28.2 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 September 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 September 30, 2008 the Company has incurred the full amount of this commitment.

10. SUBSEQUENT EVENT

On October 22, 2008, the Company announced that the Toronto Stock Exchange ("TSX") has accepted Twin Butte's Notice of Intention to commence a Normal Course Issuer Bid (the "Bid") to purchase for cancellation, as it considers advisable, up to a maximum of 3,079,323 Common Shares (which is equal to 10% of the "public float" of 43,424,425 Common Shares) on the open market through the facilities of the TSX. The number of Common Shares that can be purchased pursuant to the Bid is subject to a daily maximum of 33,208. The price that Twin Butte will pay for any Common Share under the Bid will be the prevailing market price on the TSX at the time of such purchase. Common Shares acquired under the Bid will be subsequently cancelled. The Bid commenced on October 24, 2008 and will terminate on October 23, 2009 or such earlier time as the Bid is completed or terminated at the option of Twin Butte.

CORPORATE INFORMATION

OFFICERS

Jim Saunders
President and Chief Executive Officer

Neil Cathcart
Vice President, Exploration

Greg Hodgson
Vice President, Production and Operations

Colin Ogilvy
Vice President, Land

R. Alan Steele
Vice President, Finance & CFO

BOARD OF DIRECTORS

Jim Brown (1) (2)

Paul Colborne (1) (3)

Craig Hruska (2) (3)

Ken Mullen (1) (3)

Jim Saunders

Paul Starnino (2)

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

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Chartered Accountants, Calgary, AB

BANKERS

National Bank of Canada, Calgary, AB

SOLICITORS

Burnet, Duckworth & Palmer LLP,
Calgary, AB

ENGINEERS

McDaniel & Associates Consultants Ltd. Calgary, AB

REGISTRAR & TRANSFER AGENT

Valiant Trust Company
Calgary, AB

STOCK EXCHANGE LISTING

TSX
Trading Symbol "TBE"

Twin Butte Energy Ltd.