



For the three months ended March 31, 2009

## Twin Butte Energy Reports First Quarter Financial Results and Confirmation of Bank Line for 2009

### Highlights

Twin Butte Energy Ltd. ("Twin Butte" or the "Company") (TSX: TBE) is pleased to announce its financial and operational results for the three months ended March 31, 2009.

| Three months ended March 31                               | 2009       | 2008       | % Change |
|---|------------|------------|----------|
| <b>FINANCIAL</b> (\$ thousands, except per share amounts) |            |            |          |
| Petroleum and natural gas sales                           | 9,396      | 13,800     | (32%)    |
| Cash flow <sup>(1)</sup>                                  | 4,319      | 5,780      | (25%)    |
| Per share basic & diluted                                 | 0.09       | 0.16       | (44%)    |
| Net loss  | (4,858)    | (2,751)    | (77%)    |
| Per share basic & diluted                                 | (0.10)     | (0.07)     | (43%)    |
| Capital expenditures                                      | 5,412      | 8,514      | (36%)    |
| Corporate acquisitions                                    | –          | 57,252     | –        |
| Net debt <sup>(2)</sup>                                   | 51,390     | 46,297     | 11%      |
| <b>OPERATING</b>  |            |            |          |
| Average daily production                                  |            |            |          |
| Crude oil (bbl per day)                                   | 688        | 540        | 27%      |
| Natural gas (Mcf per day)                                 | 12,664     | 11,096     | 14%      |
| Natural gas liquids (bbl per day)                         | 137        | 110        | 25%      |
| Barrels of oil equivalent (boe per day, 6:1)              | 2,936      | 2,500      | 17%      |
| Average sales price                                       |            |            |          |
| Crude oil (\$ per bbl)                                    | 46.35      | 92.17      | (50%)    |
| Natural gas (\$ per Mcf)                                  | 5.28       | 8.37       | (37%)    |
| Natural gas liquids (\$ per bbl)                          | 41.40      | 81.69      | (49%)    |
| Barrels of oil equivalent (\$ per boe, 6:1)               | 35.58      | 60.67      | (41%)    |
| Operating netback (\$ per boe)                            |            |            |          |
| Petroleum and natural gas sales                           | 35.58      | 60.67      | (41%)    |
| Realized gain (loss) on financial derivatives             | 7.14       | (2.71)     | –        |
| Royalties   | (4.99)     | (10.64)    | (53%)    |
| Operating Expenses  | (13.39)    | (11.17)    | 20%      |
| Transportation Expenses                                   | (2.66)     | (2.83)     | (6%)     |
| Operating netback   | 21.68      | 33.32      | (35%)    |
| Wells drilled   |            |            |          |
| Gross   | 3.0        | 5.0        | (40%)    |
| Net   | 3.0        | 5.0        | (40%)    |
| Success (%)   | 100%       | 100%       |          |
| <b>COMMON SHARES</b>                                      |            |            |          |
| Shares outstanding, end of period                         | 47,128,425 | 43,415,425 | 9%       |
| Weighted average shares outstanding – diluted             | 47,128,425 | 36,702,699 | 28%      |

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

(2) Net debt at March 31, 2009 excludes financial derivative assets less financial derivative liability in the amount of \$0.1 million. The net amount relates to a net unrealized gain on financial derivatives recognized at March 31, 2009.

# Report to Shareholders

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## OVERVIEW

The first quarter of 2009 proved to be challenging, with the continued decline in natural gas prices and a general industry slowdown resulting in lack of investor interest especially in the junior oil and gas sector. Twin Butte took a disciplined approach focusing on improving overall corporate strength and efficiencies to ensure we could ride out the downturn while positioning the organization to take advantage of future growth potential on our considerable undeveloped land and reserve base when economic conditions allow.

The new management team at Twin Butte continues to refocus the Company in core areas that have the potential to be significant growth platforms. The migration to more of a northwest Alberta, northeast British Columbia player is ongoing. As well our substantial oil based inventory of over 35 locations has a renewed interest with current Alberta royalty incentives and reasonably stable pricing driving robust economics. This is a good compliment to our over 70 gas based inventory locations. Twin Butte is fortunate in that it has the flexibility to re-allocate capital between its numerous opportunities depending on economic conditions.

We are pleased to announce that we have recently reconfirmed our bank line at \$65 million for 2009. This confirmation ensures continued financial flexibility with \$13.6 million of unused bank line, with net debt of \$51.4 million and a planned capital expenditure program in 2009 that will equal cash flow.

## OPERATIONAL REVIEW

The Company continued to restrict capital spending in the first quarter by limiting the capital program to \$5.4 million and continued to focus on overall corporate cash cost reduction. A three gross (3.0 net) well program including two exploratory wells resulting in three gas wells was completed in the first quarter.

At Oak in northeast British Columbia, we drilled two gross (2.0 net) successful gas wells, which was driven by a competitors offset drainage. One of these wells encountered a successful exploratory gas zone. As well, infrastructure was constructed enabling production startup late in the quarter. The Company added 150 boe/d of deliverability through pool delineation which will lead to a number of downspaced drilling locations to pursue, as gas prices improve.

At Bulwark, in Eastern Alberta, an exploratory gas discovery was brought on stream during the first quarter. With recent Alberta royalty incentives the low net cost (net of \$200 per meter credit) of such targets will lead Twin Butte to drill at least two additional wells in the region over the remainder of 2009.

Additional capital projects focused on conservation of solution gas and operating cost optimization through rental equipment returns. Considerable effort has been directed to the reduction of operating costs with the restructuring of our field operations. Although Q1 is normally the highest operating cost quarter because of weather issues, we saw positive results from our efforts with unit operating costs dropping below \$12 /boe in the month of March.

With a forward capital program designed to match cash flow for the second half of 2009, our program will entail the drilling of an additional 5.5 net wells. Target locations are at Teal, in British Columbia and Thunder, Highland and Provost in Alberta. As well, a number of recompletions and workovers are scheduled in the Jayar and Thunder areas which will enhance deliverability and reserve recovery. At the end of Q1 the Company had approximately \$3.2 million of remaining flow through obligations for 2009, and we are comfortable that our planned projects will fulfill this commitment.

Production for the first quarter averaged 2,936 boe/d, an increase of 17% from the 2,500 boe/d recorded in Q1 2008 and a modest decrease from the Q4 2008 average of 3,039 boe/d. The inherent low production decline nature of the Company's assets will allow us to maintain a relatively flat production profile with low capital spending throughout the remainder of 2009. Planned processing plant turnarounds in late Q2 and early Q3 will temper corporate rates by approximately 100 boe/d in each quarter.

## OUTLOOK

The primary and fundamental driver for Twin Butte in the short term is to ensure preservation of the Company's considerably undervalued asset base. At the same time we continue to generate and build upon our capital inventory to ensure that when economic conditions improve we will have an excess of opportunities to pursue our long term growth strategy.

Our view is that summer natural gas prices may test new lows before starting to gain positive momentum through the fall and early winter. This foreseeable rally will be driven by sharp decreases in North American deliverability due to current and forecast low number of wells drilled. The Company has positioned itself to survive the summer lows, having hedged approximately 55 percent of our summer volumes at \$4.55/mcf; having right sized G&A for foreseeable levels of spending; working hard to drive our operating costs lower; and successfully renewing our credit facility at \$65 million. Net debt is expected to decrease slightly by the end of the second quarter from the current level of \$51.4 million as we under spend Q2 cash flow, keeping us well within our bank lines, providing financial flexibility. Capital spending in the second half of the year will match cash flows, ensuring no further increase in net debt, and possibly a reduction. In addition, Twin Butte has nonstrategic assets currently testing the disposition market which we believe will lead to positive results and further reduce our net debt.

The new management team at Twin Butte has made the changes necessary to reduce costs and refocus the attention to our desired growth areas. With the reconfirmed support from our bank and plans to further improve our balance sheet we are very optimistic about the growth we can achieve with the Twin Butte platform. A multitude of oil and gas opportunities as well as a significant undeveloped land position, combined with numerous consolidation opportunities will drive our growth.

Twin Butte is a value oriented junior gas producer with expanding operations in NE British Columbia and NW Alberta. With a stable low decline production base the Company is well positioned to live within cash flow while continuing to enhance our focus areas. We are committed to growth in 2009 through value added corporate consolidation thereby enhancing the long term potential growth profile for our shareholders.

On behalf of the Board of Directors,



Jim Saunders  
President and Chief Executive Officer

May 13, 2009

## Reader Advisory

Certain information regarding Twin Butte set forth in this Q1 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](http://www.sedar.com)), or Twin Butte's website ([www.twinbutteenergy.com](http://www.twinbutteenergy.com)). Furthermore, the forward-looking statements contained in this Q1 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 Q1 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.

## Management's Discussion and Analysis

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Dated as of May 13, 2009

The following discussion and analysis as provided by the management of Twin Butte Energy Ltd. ("Twin Butte" or the "Company") should be read in conjunction with the audited financial statements and management's discussion and analysis for the year ended December 31, 2008 and the unaudited financial statements for the three months ended March 31, 2009.

**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 activities 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 March 31 |        |
|---|-----------------------------|--------|
|   | 2009                        | 2008   |
| <b>Average Twin Butte Realized Commodity Prices <sup>(1)</sup></b>  |                             |        |
| Crude oil (\$ per bbl)  | 46.35                       | 92.17  |
| Natural gas (\$ per Mcf)  | 5.28                        | 8.37   |
| Natural gas liquids (\$ per bbl)  | 41.40                       | 81.69  |
| Barrels of oil equivalent (\$ per boe, 6:1)   | 35.58                       | 60.67  |
| (1) The average selling prices reported are before realized financial instrument gains/losses and transportation charges. |                             |        |
| <b>Benchmark Pricing</b>  |                             |        |
| WTI crude oil (US\$ per bbl)  | 42.98                       | 97.87  |
| WTI crude oil (Cdn\$ per bbl)   | 53.73                       | 98.16  |
| AECO natural gas (Cdn\$ per Mcf) (2)  | 4.95                        | 7.86   |
| Exchange rate – US\$/Cdn\$  | 1.25                        | 1.00   |
| (2) The AECO natural gas price reported is the average daily spot price.  |                             |        |
| <b>Revenue</b>  |                             |        |
| \$000's   |                             |        |
| Crude oil   | 2,868                       | 4,532  |
| Natural gas   | 6,019                       | 8,450  |
| Natural gas liquids   | 509                         | 818    |
| Total petroleum and natural gas sales   | 9,396                       | 13,800 |
| <b>Average Daily Production</b>   |                             |        |
| Crude oil & natural gas liquids (bbl/day)   | 825                         | 640    |
| Natural gas (Mcf/day)   | 12,664                      | 11,096 |
| Total (boe/d)   | 2,936                       | 2,500  |

Revenues for the three months ended March 31, 2009 were \$9.4 million, as compared to \$13.8 million for the three months ended March 31, 2008 representing a decrease of \$4.4 million or 32%. This decrease in revenue is attributed primarily to a year over year decrease of 41% in the average realized commodity price from \$60.67 per boe in 2008 to \$35.58 in 2009, and partially offset by year over year first quarter production average increasing by 17% from 2,500 boe/d in 2008 to 2,936 boe/d in 2009.

The Company's weighting to natural gas for the first quarter of 2009 was 72% compared to a weighting of 74% for the first quarter of 2008. The decrease in the Company's natural gas weighting is primarily the result of a higher relative proportion of new production from the Company's drilling program being weighted towards oil.

## ROYALTIES

Royalties for the three months ended March 31, 2009 were \$1.3 million, as compared to \$2.4 million for the three months ended March 31, 2008. As a percentage of revenues, the average royalty rate for the first quarter of 2009 was 14% compared to 18% for the comparative period of 2008.

In 2008 the Company was able to take advantage of B.C. royalty credits for summer drilling, and received higher Alberta natural gas processing royalty credits resulting in a decrease in the effective royalty rate. Management anticipates the average royalty rate in 2009 will be lower than 2008 based on current price forecasts and the implementation of the New Royalty Framework.

On October 25, 2007, the Alberta Government announced the New Royalty Framework ("NRF") which was subsequently revised on April 10, 2008 to provide further clarification on the NRF as well as to introduce two new royalty programs related to

the development of deep oil and natural gas reserves. The NRF was legislated in November 2008 and took effect on January 1, 2009. Subsequent to legislation of the NRF, the Government of Alberta introduced the Transitional Royalty Plan ("TRP") in response to the decrease in development activity in Alberta resulting from declining commodity prices and the global economic downturn. The TRP offers reduced royalty rates for new wells drilled on or after November 19, 2008 that meet certain depth requirements. An election must be filed on an individual well basis in order to qualify for the TRP. The TRP is in place for a maximum of 5 years to December 31, 2013. All wells drilled between 2009 and 2013 that adopt the transitional rates will be required to shift to the NRF on January 1, 2014. The Company does not anticipate a significant benefit in 2009 given that its current wells converted to the NRF effective January 1, 2009. The Company has reviewed the NRF and has determined that its impact will change the Company's corporate forecast royalty rate over the life of the reserves by approximately 1% as compared to the royalty rates that would have been calculated with the royalty regime in place during 2008 based on benchmark pricing as at December 31, 2008.

On March 3, 2009 the Alberta government announced a series of incentives to assist the province's energy sector, including a one-year drilling royalty credit for new conventional oil and natural gas wells, and a new well incentive program, which offers a maximum five percent royalty rate for the first year of production from new oil or gas wells. This government initiative will have limited effects on total Company royalty rates.

### OPERATING EXPENSES

Operating expenses were \$3.5 million or \$13.39 per boe for the quarter ended March 31, 2009 as compared to \$2.5 million or \$11.17 per boe for the three months ended March 31, 2008. The Company realized an increase in operating costs on a per boe basis in the first quarter of 2009 as a result of cold weather for much of the first quarter requiring additional fuel and maintenance costs.

The Company is focusing considerable effort to reduce operating costs which showed positive progress in the month of March 2009 with operating costs under \$12.00/boe. It is expected that operating costs on a per boe basis will be reduced over the next few quarters.

### TRANSPORTATION EXPENSES

Transportation expenses for the three months ended March 31, 2009 were \$0.7 million or \$2.66 per boe compared to \$0.6 million or \$2.83 per boe in the prior year comparative quarter. Increases in total transportation expenses are the result of increases in production volumes although transportation expenses on a per unit basis decreased by 6% in 2009.

### GENERAL AND ADMINISTRATIVE ("G&A") EXPENSES

|                                 | Three months ended March 31 |        |
|---------------------------------|-----------------------------|--------|
| \$ 000's                        | 2009                        | 2008   |
| G&A expenses                    | 1,413                       | 1,434  |
| Recoveries                      | (51)                        | (119)  |
| Capitalized G&A expenses        | (324)                       | (249)  |
| Total net G&A expenses          | 1,038                       | 1,066  |
| Total net G&A expenses (\$/boe) | \$3.93                      | \$4.69 |

General and administrative expenses, net of recoveries and capitalized G&A, were \$1.0 million or \$3.93 per boe for the current quarter as compared to \$1.1 million or \$4.69 per boe in the prior year comparative quarter. General and administrative expenses, net of recoveries and capitalized G&A, has decreased on a per boe basis as a result of the increase in production volumes in 2009 compared to the prior year comparative quarter.

General and administrative expenses in the current quarter and for the second quarter of 2009 are impacted by severance costs related to staffing reductions. The Company is forecasting general and administrative expenses on a gross and per boe basis to decrease post Q2 2009.

## STOCK BASED COMPENSATION EXPENSE

During the three month period ended March 31, 2009, the Company expensed \$1.0 million in stock based compensation as compared to \$0.8 million in the three month period ended March 31, 2008. Stock based compensation expense in the current quarter is consistent with the prior year comparative quarter. Stock based compensation expense for the first quarter 2009 and the prior year comparative period include a charge for stock based compensation expense recorded on the remaining unrecognized fair value of outstanding stock options that were cancelled in both periods.

## INTEREST EXPENSE

For the three months ended March 31, 2009, interest expense was \$0.4 million, a decrease of \$0.3 million from \$0.7 million for the prior year comparative quarter. Lower interest costs in the first quarter are due to lower bank facility interest rates as compared to the prior year comparative period.

## UNREALIZED AND REALIZED GAINS (LOSSES) ON FINANCIAL DERIVATIVES

During 2008 and 2009, the Company entered into fixed price swap and costless collar contracts for natural gas and crude oil and fixed/floating interest rate swap transactions. As part of our financial management strategy, Twin Butte has adopted a commodity price and interest rate 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, with an emphasis on protecting downside risk.

The Company has recognized a realized gain on financial derivatives in the amount of \$1.9 million (\$7.14 per boe) for the three month period ended March 31, 2009 as compared to a \$0.6 million (\$2.71 per boe) realized loss for the prior year comparative period. The realized gain on financial derivatives for the three month period ended March 31, 2009 amounted to a gain of \$1.9 million for crude oil sales price derivatives and a loss of \$21 thousand for interest rate derivatives.

As at March 31, 2009, the Company has recognized an unrealized financial derivatives asset in the amount of \$0.5 million and a unrealized financial derivatives liability in the amount of \$0.4 million. The Company has recognized an unrealized loss on financial derivatives in the amount of \$1.9 million for the three month period ended March 31, 2009 and \$4.1 million for the prior year comparative period. The following is a summary of derivatives in effect as at March 31, 2009 and their related fair market values (unrealized gain positions):

### Crude Oil Sales Price Derivatives

| Daily quantity per barrel ("bbl") | Remaining term of contract   | Costless Collar per bbl (WTI) | Fair market value \$ 000's |
|-----------------------------------|------------------------------|-------------------------------|----------------------------|
| 100                               | April 1 to December 31, 2009 | US \$60.00 – US \$195.00      | \$342                      |
| Crude oil fair value position     |                              |                               | \$342                      |

As at March 31, 2009 the marked-to-market value of the Company's crude oil sales price derivative was an asset of USD \$0.3 million, or a Canadian dollar equivalent of \$0.3 million. In February 2009 the Company amended this contract to adjust the floor price from US \$100.00 to \$60.00 for the period of March 1 through to December 31, 2009. In exchange for amending the terms of the contract, Twin Butte was paid US \$1.1 million (CAD \$1.4 million) in the month of February 2009.

### Natural Gas Sales Price Derivative Contracts

| Daily quantity per giga-joule ("GJ") | Remaining term of contract  | Fixed price per GJ (AECO Monthly) | Fair market value \$ 000's |
|--------------------------------------|-----------------------------|-----------------------------------|----------------------------|
| 5,000                                | April 1 to October 31, 2009 | \$4.10                            | \$185                      |
| Natural gas fair value position      |                             |                                   | \$185                      |

As at March 31, 2009 the marked-to-market value of the Company's natural gas sales price derivative contracts was an asset of approximately \$0.2 million.

### Fixed/Floating Interest Rate Derivative Contracts

In January 2009, the Company entered into two interest rate swap transactions with the Company's bank. The Company has entered into a contract to borrow \$20.0 million at a fixed rate of 1.18% plus applicable bankers' acceptance stamping fees

ranging from 1.75% to 4.00% for the period of January 30, 2009 to January 30, 2010, and \$20.0 million at a fixed rate of 1.45% plus applicable bankers' acceptance stamping fees ranging from 1.75% to 4.00% for the period of January 30, 2009 to January 30, 2011.

As at March 31, 2009 the marked-to-market value of the Company's fixed/floating interest rate derivative contracts was a liability of approximately \$0.4 million.

#### DEPLETION, DEPRECIATION AND ACCRETION EXPENSE

For the three month period ended March 31, 2009, depletion and depreciation of capital assets and the accretion of the asset retirement obligations was \$7.9 million or \$29.38 per boe compared to \$6.2 million or \$26.67 per boe for the three month period ended March 31, 2008.

The increase in depletion, depreciation and accretion expense for the three months ended March 31, 2009 as compared to the same period in 2008 is due to higher production volumes and reflects an increase in costs on a per unit basis. Per unit costs have increased for the 2009 period when compared to the 2008 period due to proven reserve additions at a higher cost than historic depletion, depreciation and accretion expense per boe.

#### INCOME TAXES

Future income tax recovery amounted to \$1.7 million for the three month period ended March 31, 2009 compared to a future income tax recovery in the amount of \$2.5 million for the three month period ended March 31, 2008.

The Company has existing tax losses and pools of approximately \$190 million of which \$21.1 million are non-capital losses and the Company has no current tax expense.

#### CASH FLOW FROM OPERATIONS, AND NET LOSS AND COMPREHENSIVE LOSS

Cash flow from operations for the three month period ended March 31, 2009 was \$4.3 million, a decrease of 26% from first quarter 2008 cash flow of \$5.8 million. This represents a decrease of 44% in cash flow per share basic and diluted to \$0.09 per share for first quarter 2009 compared to \$0.16 per share for first quarter 2008.

The Company posted net loss and comprehensive loss of \$4.9 million for the three month period ended March 31, 2009, equating to a basic and diluted net loss per share of \$0.10, compared to net loss and comprehensive loss of \$2.8 million for the three month period ended March 31, 2008, equating to a basic and diluted net loss per share of \$0.07.

The net loss and comprehensive loss of \$4.9 million for the three month period ended March 31, 2009 includes non cash items including depletion, depreciation and accretion expense of \$7.9 million, future income tax recovery of \$1.7 million, unrealized loss on financial derivatives of \$1.9 million and stock based compensation expense of \$1.0 million.

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

| (\$ per boe)                                  | Q1 2009 | Q4 2008 | Q3 2008 | Q2 2008 | Q1 2008 | Q4 2007 | Q3 2007 | Q2 2007 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|
| Petroleum and natural gas sales               | 35.58   | 47.07   | 68.69   | 78.91   | 60.67   | 49.55   | 42.91   | 51.38   |
| Royalties                                     | (4.99)  | (8.54)  | (12.59) | (11.15) | (10.64) | (9.99)  | (9.08)  | (10.52) |
| Realized gain (loss) on financial derivatives | 7.14    | 2.43    | (3.88)  | (9.30)  | (2.71)  | (0.84)  | 3.07    | 0.93    |
| Operating expenses                            | (13.39) | (13.31) | (11.90) | (13.58) | (11.17) | (12.89) | (11.86) | (10.96) |
| Transportation expenses                       | (2.66)  | (2.47)  | (2.45)  | (2.88)  | (2.83)  | (2.54)  | (2.47)  | (2.31)  |
| Operating netback                             | 21.68   | 25.18   | 37.87   | 42.00   | 33.32   | 23.29   | 22.57   | 28.52   |
| General and administrative expenses           | (3.93)  | (4.61)  | (2.74)  | (3.53)  | (4.69)  | (3.70)  | (3.19)  | (4.25)  |
| Interest expense                              | (1.40)  | (1.82)  | (1.53)  | (1.81)  | (3.21)  | (1.96)  | (2.07)  | (0.77)  |
| Cash flow from operations                     | 16.35   | 18.75   | 33.60   | 36.66   | 25.42   | 17.63   | 17.31   | 23.50   |

## QUARTERLY FINANCIAL SUMMARY

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

| (\$ thousands, except per share amounts)           | Q1 2009 | Q4 2008 | Q3 2008 | Q2 2008 | Q1 2008 | Q4 2007 | Q3 2007 | Q2 2007 |
|--|---------|---------|---------|---------|---------|---------|---------|---------|
| Average production (boe/d)                         | 2,936   | 3,039   | 3,202   | 3,051   | 2,500   | 2,006   | 2,042   | 1,445   |
| Petroleum and natural gas sales                    | 9,396   | 13,158  | 20,235  | 21,907  | 13,800  | 9,146   | 8,060   | 6,755   |
| Operating netback (per boe)                        | 21.68   | 25.18   | 37.85   | 42.00   | 33.32   | 23.29   | 22.57   | 28.52   |
| Cash flow from operations                          | 4,319   | 5,243   | 9,895   | 10,178  | 5,780   | 3,255   | 3,254   | 3,091   |
| Per share basic & diluted                          | 0.09    | 0.12    | 0.23    | 0.23    | 0.16    | 0.12    | 0.12    | 0.14    |
| Net income (loss)                                  | (4,858) | (4,001) | 5,909   | (1,753) | (2,751) | 4,272   | (4,818) | 3,483   |
| Per share basic & diluted                          | (0.10)  | (0.09)  | 0.14    | (0.04)  | (0.07)  | 0.15    | (0.18)  | 0.16    |
| Corporate acquisitions                             | –       | –       | –       | –       | 57,252  | –       | –       | –       |
| Capital expenditures (net of dispositions)         | 5,412   | 9,211   | 17,623  | 7,025   | 8,513   | 3,671   | 3,615   | 31,981  |
| Total assets                                       | 183,687 | 190,665 | 189,613 | 187,172 | 186,685 | 120,151 | 112,804 | 116,389 |
| Net debt excluding financial derivatives liability | 51,390  | 50,309  | 51,073  | 43,230  | 46,297  | 23,242  | 22,823  | 38,042  |

## CORPORATE ACQUISITIONS

On February 8, 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

During the first quarter of 2009, the Company invested \$5.4 million with the drilling of 3 gross wells (3.0 net) for a success rate of 100 percent. The following tables summarize capital expenditures, drilling results and undeveloped land positions for 2009 and 2008.

|                                | Three months ended March 31 |       |
|--------------------------------|-----------------------------|-------|
| (\$ 000's)                     | 2009                        | 2008  |
| Land acquisition               | 39                          | 571   |
| Geological and geophysical     | 216                         | 416   |
| Drilling and completions       | 2,290                       | 5,315 |
| Equipping and facilities       | 2,537                       | 1,904 |
| Other                          | 330                         | 308   |
| Total net capital expenditures | 5,412                       | 8,514 |

## Drilling Results

| Three months ended March 31 | 2009  |     | 2008  |     |
|-----------------------------|-------|-----|-------|-----|
|                             | Gross | Net | Gross | Net |
| Crude oil                   | –     | –   | 3.0   | 3.0 |
| Natural gas                 | 3.0   | 3.0 | 2.0   | 2.0 |
| Dry and abandoned           | –     | –   | –     | –   |
| Total                       | 3.0   | 3.0 | 5.0   | 5.0 |
| Success rate (%)            | 100%  |     | 100%  |     |

## Undeveloped Land

| Three months ended March 31 | 2009    | 2008    |
|-----------------------------|---------|---------|
| Gross Acres                 | 190,495 | 184,453 |
| Net Acres                   | 149,098 | 147,296 |

## LIQUIDITY AND CAPITAL RESOURCES

In order to support the Company's business plan, Twin Butte's strategy is to fund its capital expenditure program with cash flows from operations and bank debt. With forecasted decreases in cash flows and tighter credit markets in 2009, Twin Butte plans to limit 2009 capital expenditures to approximately cash flow which should continue to provide the Company an undrawn portion on the Company's credit facility borrowing.

As at March 31, 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's credit facility was renewed May 12, 2009 and is subject to semi-annual review by the bank with the next semi-annual credit facility review scheduled for December 2009. The facility is a borrowing base facility that is determined based on, among other things, the Company's current reserve report, results of operations, current and forecasted commodity prices and the current economic environment.

The credit facility provides that advances may be made by way of direct advances, bankers' acceptance, or standby letters of credit/guarantees. Direct advances bear interest at the bank's prime lending rate plus an applicable margin. The applicable margin charged by the bank is dependent on the Company's prior quarter debt to cash flow ratio. The bankers' acceptances bear interest at the applicable bankers' acceptance rate plus a stamping fee, based on the Company's debt to trailing cash flow ratio. The credit facility is secured by a demand debenture and a general security agreement covering all assets of the Company.

At March 31, 2009, the Company had \$49.3 million drawn on its credit facility and total net debt of \$51.4 million, excluding financial derivative contracts asset less financial derivative contracts liability in the amount of \$0.1 million. As at that date, Twin Butte had met all of its covenants pertaining to this loan agreement and was not required to make any repayments. The covenants pertaining to this loan agreement are based on a measure of the Company's work capital.

## SHARE CAPITAL

As of May 13, 2009 the Company currently has 47,128,425 Common Shares and 2,361,500 stock options outstanding.

## CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

The issuance of flow through shares in December 2008 for gross proceeds of \$5.0 million will require the Company to spend \$5.0 million of flow-through share eligible Canadian Exploration Expenditures, as defined in the Canadian Income Tax Act, by December 31, 2009. As at March 31, 2009 the Company had incurred approximately \$1.8 million of this commitment.

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

The Company is involved in legal claims associated with the normal course of operations. The Company has completed an assessment and has not recorded a contingent liability.

## RELATED PARTY TRANSACTIONS

During the first quarter the Company incurred costs totaling \$nil (March 31, 2008 - \$64 thousand) for services rendered by companies in which a director of Twin Butte is an officer and a director and an officer of Twin Butte is a director. These costs were incurred in the normal course of business and recorded at the exchange amount.

## NEWLY ADOPTED ACCOUNTING POLICIES

In February 2008, the CICA Accounting Standards Board issued Handbook Section 3064, Goodwill and Intangible Assets and amended Section 1000, Financial Statement Concepts clarifying the criteria for the recognition of assets, intangible assets and internally developed intangible assets. Items that no longer meet the definition of an asset are no longer recognized with assets. The Company adopted this standard effective January 1, 2009. Twin Butte has determined that there is no impact on adopting this new standard.

### Commencing January 20, 2009, the Company adopted the CICA Handbook EIC 173 – Credit Risk

and the Fair Value of Financial Assets and Financial Liabilities, which clarifies the consideration of entity's own credit risk and the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities, including derivative

instruments. The accounting treatment should be applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value. There was no resulting difference noted on adoption.

#### **Future Accounting Policy Changes & Status of Transition to International Financial Reporting Standards ("IFRS")**

On February 13, 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian Generally Accepted Accounting Principles for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011.

We will begin reporting our financial statements in accordance with the International Financial Reporting Standards (IFRS) on January 1, 2011, including comparative results, pursuant to the decision made by the CICA.

We have started the process of evaluating and planning the implementation of a comprehensive enterprise wide project to manage the transition to IFRS with regular reporting to both senior management and the Audit Committee. The project will focus on key impact areas including – financial reporting (including internal controls), systems and processes, communication and training. We have started a diagnostic of the scope and complexity of the conversion requirements, which we foresee to result in the following:

- > Identify the areas which there are significant differences between IFRS and Canadian GAAP;
- > Assess the impact of the conversion on various areas of business;
- > Communication and education of internal stakeholders;
- > Launch a review of accounting policy impacts and choices as well as IFRS 1 exemptions; and
- > Launch various project to start the transitioning process.

During the project and related transition, we will monitor ongoing changes and adjust our transition plans accordingly. Our transition status is currently on track with our implementation schedule.

## Balance Sheets

(unaudited)

|   | March 31<br>2009 | December 31<br>2008 |
|---|------------------|---------------------|
| <b>ASSETS</b>                               |                  |                     |
| <b>Current Assets</b>                       |                  |                     |
| Accounts receivable                         | \$ 6,214,776     | \$ 9,416,746        |
| Deposits and prepaid expenses               | 1,497,420        | 1,651,966           |
| Financial derivatives (note 8)              | 526,919          | 2,075,039           |
|   | 8,239,115        | 13,143,751          |
| Future income taxes                         | 1,540,065        | 1,324,465           |
| Property and equipment (note 3)             | 173,908,081      | 176,197,152         |
|   | \$ 183,687,261   | \$ 190,665,368      |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                  |                     |
| <b>Current Liabilities</b>                  |                  |                     |
| Accounts payable and accrued liabilities    | \$ 9,843,101     | \$ 15,745,084       |
| Bank indebtedness (note 4)                  | 49,259,049       | 45,632,924          |
| Financial derivatives (note 8)              | 395,499          | –                   |
|   | 59,497,649       | 61,378,008          |
| Asset retirement obligation (note 5)        | 9,401,469        | 9,158,775           |
|   | 68,899,118       | 70,536,783          |
| <b>Shareholders' Equity</b>                 |                  |                     |
| Share capital (note 6)                      | 130,409,925      | 131,863,112         |
| Contributed surplus (note 6)                | 3,718,368        | 2,747,850           |
| Deficit                                     | (19,340,150)     | (14,482,377)        |
|   | 114,788,143      | 120,128,585         |
|   | \$ 183,687,261   | \$ 190,665,368      |

Commitments and contingencies (note 9)

See accompanying notes to financial statements

## Statements of Loss, Comprehensive Loss and Deficit

| (unaudited)                                       | Three Months Ended March 31 |                 |
|---|-----------------------------|-----------------|
|   | 2009                        | 2008            |
| <b>REVENUE</b>                                    |                             |                 |
| Petroleum and natural gas sales                   | \$ 9,396,353                | \$ 13,800,154   |
| Royalties   | (1,317,331)                 | (2,420,926)     |
| Realized gain (loss) on financial derivatives     | 1,885,842                   | (615,923)       |
| Unrealized loss on financial derivatives (note 8) | (1,943,620)                 | (4,090,797)     |
|   | 8,021,244                   | 6,672,508       |
| <b>EXPENSES</b>                                   |                             |                 |
| Operating   | 3,535,917                   | 2,541,754       |
| Transportation                                    | 701,945                     | 644,379         |
| General and administrative                        | 1,038,136                   | 1,066,401       |
| Stock based compensation                          | 970,518                     | 769,436         |
| Interest  | 369,622                     | 731,249         |
| Depletion, depreciation and accretion             | 7,927,341                   | 6,202,856       |
|   | 14,543,479                  | 11,956,075      |
| Loss before income taxes                          | (6,522,235)                 | (5,283,567)     |
| Income taxes                                      |                             |                 |
| Future tax recovery                               | (1,664,462)                 | (2,532,766)     |
|   | (1,664,462)                 | (2,532,766)     |
| Net loss and comprehensive loss                   | (4,857,773)                 | (2,750,801)     |
| Deficit, beginning of period                      | (14,482,377)                | (11,887,072)    |
| Deficit, end of period                            | \$ (19,340,150)             | \$ (14,637,873) |
| Basic & diluted loss per share                    | \$ (0.10)                   | \$ (0.07)       |
| Weighted average common shares outstanding        |                             |                 |
| Basic & diluted                                   | 47,128,425                  | 36,702,699      |

See accompanying notes to financial statements

## Statements of Cash Flows

| (unaudited)                                    | Three Months Ended March 31 |                |
|--|-----------------------------|----------------|
|  | 2009                        | 2008           |
| Cash provided by (used in):                    |                             |                |
| <b>OPERATIONS</b>                              |                             |                |
| Net loss                                       | \$ (4,857,773)              | \$ (2,750,801) |
| Items not involving cash:                      |                             |                |
| Depletion, depreciation and accretion          | 7,927,341                   | 6,202,856      |
| Future tax recovery                            | (1,664,462)                 | (2,532,766)    |
| Unrealized loss on financial derivatives       | 1,943,620                   | 4,090,797      |
| Stock based compensation                       | 970,518                     | 769,436        |
|  | 4,319,244                   | 5,779,522      |
| Expenditures on asset retirement obligations   | 16,768                      | –              |
| Changes in non-cash working capital            | 1,894,522                   | (6,803,398)    |
|  | 6,230,534                   | (1,023,876)    |
| <b>FINANCING</b>                               |                             |                |
| Change in bank indebtedness                    | 3,626,125                   | 4,225,856      |
| Bank financing and share issue costs           | (4,325)                     | (33,750)       |
|  | 3,621,800                   | 4,192,106      |
| <b>INVESTING</b>                               |                             |                |
| Expenditures on property and equipment         | (5,412,344)                 | (8,513,728)    |
| Acquisition expenditures                       | –                           | (362,668)      |
| Changes in non-cash working capital            | (4,439,990)                 | 5,708,166      |
|  | (9,852,334)                 | (3,168,230)    |
| Decrease in cash and cash equivalents          | –                           | –              |
| Cash and cash equivalents, beginning of period | –                           | –              |
| Cash and cash equivalents, end of period       | \$ –                        | \$ –           |
| Cash interest paid                             | \$ 353,018                  | \$ 729,237     |

See accompanying notes to financial statements

## Notes to Financial Statements – March 31, 2009 (unaudited)

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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, 2008 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.

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

### NOTE 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 and Recent Accounting Pronouncements

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of the plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards ("IFRS") effective January 1, 2011. The Company continues to monitor, assess and develop its implementation plan for the convergence of Canadian GAAP and IFRS.

In February 2008, the AcSB issued Handbook Section 3064, Goodwill and Intangible Assets and amended Section 1000, Financial Statement Concepts clarifying the criteria for the recognition of assets, intangible assets and internally developed intangible assets. Items that no longer meet the definition of an asset are no longer recognized with assets. The Company adopted this standard effective January 1, 2009. Twin Butte has determined that there is no impact on adopting this new standard.

Commencing January 20, 2009, the Company adopted the CICA Handbook EIC 173 – Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, which clarifies the consideration of entity's own credit risk and the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities, including derivative instruments. The accounting treatment should be applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value. There was no resulting difference noted on adoption.

### NOTE 2. ACQUISITION EXPENDITURES

On February 8, 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 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 |

## NOTE 3.

### PROPERTY AND EQUIPMENT

|                                      |                |  | March 31,<br>2009    | December 31,<br>2008 |
|--------------------------------------|----------------|--|----------------------|----------------------|
|                                      | Cost           | Accumulated<br>Depletion &<br>Depreciation | Net<br>Book<br>Value | Net<br>Book<br>Value |
| Petroleum and natural gas properties | \$ 237,821,953 | \$ 64,021,132                              | \$ 173,800,821       | \$ 176,080,040       |
| Office and computer equipment        | 205,010        | 97,750                                     | 107,260              | 117,112              |
| Total                                | \$ 238,026,963 | \$ 64,118,882                              | \$ 173,908,081       | \$ 176,197,152       |

The Company has capitalized \$323,522 of general and administrative expenses directly related to exploration and development activities for the three month period ended March 31, 2009 (\$1,726,246 - December 31, 2008).

The cost of undeveloped property excluded from the depletion base as at March 31, 2009 was \$16,636,850 (\$16,597,792 - December 31, 2008). Future development costs on proved undeveloped reserves of \$38,823,700 as at March 31, 2009 are included in the calculation of depletion (\$41,683,700 - December 31, 2008).

## NOTE 4.

### BANK INDEBTEDNESS

As at March 31, 2009, 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, bankers' 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 the revised pricing grid and range from bank prime plus 0.25% to bank prime plus 2.5%, depending upon the Company's prior quarter 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 plus 0.25%. A debt to cash flow ratio greater than three times has interest payable at the bank's prime lending rate plus 2.5%. The credit facility is secured by a demand debenture and a general security agreement covering all assets of the Company.

The facility is a borrowing base facility that is determined based on, among other things, the Company's current reserve report, results of operations, current and forecasted commodity prices and the current economic environment. The Company's next semi-annual credit facility review is scheduled for December 2009.

## NOTE 5.

### ASSET RETIREMENT OBLIGATION

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 \$9,401,469 at March 31, 2009, based on a total future liability of \$16,231,152. Payments to settle asset retirement obligations occur over the operating lives of the underlying assets, estimated to be from 1 year to 19 years with the majority of the costs to be incurred between 2009 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:

|  | Three Months<br>Ended<br>March 31, 2009 | Year Ended<br>December 31, 2008 |
|--|---|---------------------------------|
| Asset retirement obligation, beginning of period | \$ 9,158,775                            | \$ 6,945,541                    |
| Liabilities incurred                             | 95,000                                  | 482,302                         |
| Liabilities settled                              | 16,768                                  | (88,617)                        |
| Acquisitions                                     | –                                       | 1,913,109                       |
| Revisions in estimated cash outflows             | (21,165)                                | (663,818)                       |
| Accretion of asset retirement obligation         | 152,091                                 | 570,258                         |
| Asset retirement obligation, end of period       | \$ 9,401,469                            | \$ 9,158,775                    |

## NOTE 6.

### SHARE CAPITAL

#### Authorized

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

#### Issued

|   | Number of shares  | Amount                |
|---|-------------------|-----------------------|
| <b>Common Shares</b>                        |                   |                       |
| Balance, December 31, 2008                  | 47,128,425        | \$ 131,863,112        |
| Tax effect of 2008 flow through share issue | –                 | (1,450,116)           |
| Financing and share issue costs net of tax  | –                 | (3,071)               |
| <b>Balance, March 31, 2009</b>              | <b>47,128,425</b> | <b>\$ 130,409,925</b> |

#### Issue of Common Shares

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 47,128,425 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. As at March 31, 2009, no Common Shares were repurchased by the Company.

### Stock Options

The Company has a stock option plan under which options to purchase Common Shares may be granted to officers, directors, employees and consultants. The Board has approved a policy of reserving up to 10% of the outstanding Common Shares for issuance to eligible participants. As at March 31, 2009 there were 4,712,842 (4,712,842 – December 31, 2008) Common Shares reserved for issuance under the plan. All options awarded have a maximum term of five years and vest in equal one-third increments on each anniversary of the grant.

The following table sets forth a reconciliation of stock option plan activity through to March 31, 2009:

|                                      | Number of Options | Weighted Average Exercise Price |
|--------------------------------------|-------------------|---------------------------------|
| Outstanding at December 31, 2008     | 3,458,000         | \$ 2.21                         |
| Granted                              | 952,500           | 0.54                            |
| Cancelled                            | (1,284,000)       | 2.69                            |
| Forfeited                            | (765,000)         | 2.03                            |
| <b>Outstanding at March 31, 2009</b> | <b>2,361,500</b>  | <b>\$ 1.34</b>                  |

There were 103,333 options exercisable as at March 31, 2009 at an exercise price of \$2.45 per share and 3.71 weighted average years to expiry.

| Exercise Price | Options Outstanding           |                                    |                                  |                               |                                    |                                  |
|----------------|-------------------------------|------------------------------------|----------------------------------|-------------------------------|------------------------------------|----------------------------------|
|                | March 31, 2009                |                                    |                                  | December 31, 2008             |                                    |                                  |
|                | Number of Options Outstanding | Weighted Average Exercise Price \$ | Weighted Average Years to Expiry | Number of Options Outstanding | Weighted Average Exercise Price \$ | Weighted Average Years to Expiry |
| \$0.42 – 0.56  | 672,500                       | 0.54                               | 4.86                             | –                             | –                                  | –                                |
| \$0.97 – 1.24  | 1,062,000                     | 1.01                               | 4.66                             | 1,112,000                     | 1.02                               | 4.90                             |
| \$2.45 – 3.65  | 627,000                       | 2.76                               | 3.93                             | 2,346,000                     | 2.78                               | 4.24                             |
|                | <b>2,361,500</b>              | <b>1.34</b>                        | <b>4.52</b>                      | <b>3,458,000</b>              | <b>2.21</b>                        | <b>4.45</b>                      |

### 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.

|  | Three Months Ended March 31, 2009 | Year Ended December 31, 2008 |
|--|-----------------------------------|------------------------------|
| Contributed surplus balance, beginning of period     | \$ 2,747,850                      | \$ 1,014,991                 |
| Stock based compensation for stock options granted   | 95,685                            | 918,202                      |
| Stock based compensation for stock options cancelled | 992,574                           | 1,002,738                    |
| Stock based compensation for stock options forfeited | (117,741)                         | (185,097)                    |
| Stock based compensation for stock options exercised | –                                 | (2,984)                      |
| <b>Contributed surplus balance, end of period</b>    | <b>\$ 3,718,368</b>               | <b>\$ 2,747,850</b>          |

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 as follows:

|  | Three months ended<br>March 31, 2009 | Year ended<br>December 31, 2008 |
|--|--------------------------------------|---------------------------------|
| Expected volatility                                | 50%                                  | 50%                             |
| Risk free rate of return                           | 4.5%                                 | 4.5%                            |
| Expected stock option life                         | 3 years                              | 3 years                         |
| Dividend yield rate                                | 0.0%                                 | 0.0%                            |
| Weighted average fair value of stock option grants | \$0.21                               | \$0.89                          |

#### Loss Per Share

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

|   | Three months ended March 31 |            |
|---|-----------------------------|------------|
|   | 2009                        | 2008       |
| Weighted average number of basic shares   | 47,128,425                  | 36,702,699 |
| Effect of dilutive securities:            |                             |            |
| Employee stock options                    | –                           | –          |
| Weighted average number of diluted shares | 47,128,425                  | 36,702,699 |

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

#### NOTE 7.

#### RELATED PARTY TRANSACTIONS

During the three month period ended March 31, 2009, the Company incurred costs totaling \$nil (\$561 thousand – December 31, 2008) for oilfield services rendered by companies in which a director of Twin Butte is an officer and a director and an officer of Twin Butte is a director. These costs were incurred in the normal course of business and recorded at the exchange amount. As at March 31, 2009, the Company had \$nil included in accounts payable and accrued liabilities related to these transactions.

#### NOTE 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 and summarized information related to risk management positions 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 approximate their carrying amount due to the short-term maturity of those instruments. The fair value of the bank indebtedness approximates its carrying value as it is based on the bank prime rate.

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 March 31, 2009 |                      | As at December 31, 2008 |                      |
|--|----------------------|----------------------|-------------------------|----------------------|
| \$ 000's                                 | Carrying Amount      | Estimated Fair Value | Carrying Amount         | Estimated Fair Value |
| Financial Assets                         |                      |                      |                         |                      |
| Risk management assets                   | \$ 527               | \$ 527               | \$ 2,075                | \$ 2,075             |
| Accounts receivable                      | 6,215                | 6,215                | 9,417                   | 9,417                |
| Financial Liabilities                    |                      |                      |                         |                      |
| Risk management liabilities              | \$ 395               | \$ 395               | \$ –                    | \$ –                 |
| Accounts payable and accrued liabilities | 9,843                | 9,843                | 15,745                  | 15,745               |
| Bank indebtedness                        | 49,259               | 49,259               | 45,633                  | 45,633               |

### Risk Management Assets and Liabilities

#### Net Risk Management Position

| \$ 000's                              | March 31, 2009 | December 31, 2008 |
|---------------------------------------|----------------|-------------------|
| Risk Management                       |                |                   |
| Current asset                         | \$ 527         | \$ 2,075          |
| Current liability                     | 395            | –                 |
| Net Risk Management Asset (Liability) | \$ 132         | \$ 2,075          |

#### Summary of Unrealized Risk Management Positions

|                  | As at March 31, 2009 |           |        | As at December 31, 2008 |           |          |
|------------------|----------------------|-----------|--------|-------------------------|-----------|----------|
| \$ 000's         | Asset                | Liability | Net    | Asset                   | Liability | Net      |
| Commodity Prices |                      |           |        |                         |           |          |
| Natural gas      | \$ 185               | \$ –      | \$ 185 | \$ –                    | \$ –      | \$ –     |
| Crude oil        | 342                  | –         | 342    | 2,075                   | –         | 2,075    |
| Interest Rate    |                      |           |        |                         |           |          |
| Interest rate    | –                    | (395)     | (395)  | –                       | –         | –        |
| Total Fair Value | \$ 527               | \$ 395    | \$ 132 | \$ 2,075                | \$ –      | \$ 2,075 |

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 March 31, 2009

#### Crude Oil Sales Price Derivatives

| Daily quantity per barrel ("bbl") | Remaining term of contract   | Costless Collar per bbl (WTI) | Fair market value \$ 000's |
|-----------------------------------|------------------------------|-------------------------------|----------------------------|
| 100                               | April 1 to December 31, 2009 | US \$60.00 – US \$195.00      | \$ 342                     |
| Crude oil fair value position     |                              |                               | \$ 342                     |

As at March 31, 2009 the marked-to-market value of the Company's crude oil sales price derivative was an asset of USD \$0.3 million, or a Canadian dollar equivalent of \$0.3 million. In February 2009, the Company amended this contract to adjust the floor price from US \$100.00 to \$60.00 for the period of March 1 through to December 31, 2009. In exchange for amending the terms of the contract, Twin Butte was paid US \$1.1 million (\$1.4 million CDN) in February 2009.

*Natural Gas Sales Price Derivative Contracts*

| Daily quantity<br>per giga-joule ("GJ") | Remaining term<br>of contract  | Fixed price per GJ<br>(AECO Monthly) | Fair market value<br>\$ 000's |
|---|--------------------------------|--------------------------------------|-------------------------------|
| 5,000                                   | April 1 to<br>October 31, 2009 | \$4.10                               | \$ 185                        |
| Natural gas fair value position         |                                |                                      | \$ 185                        |

As at March 31, 2009 the marked-to-market value of the Company's natural gas sales price derivative contracts was an asset of \$0.2 million.

*Fixed/Floating Interest Rate Derivative Contracts*

In January 2009, the Company entered into two interest rate swap transactions with the Company's bank. The Company has entered into a contract to borrow \$20.0 million at a fixed rate of 1.18% plus applicable bankers' acceptance stamping fees ranging from 1.75% to 4.00% for the period of January 30, 2009 to January 30, 2010, and \$20.0 million at a fixed rate of 1.45% plus applicable bankers' acceptance stamping fees ranging from 1.75% to 4.00% for the period of January 30, 2009 to January 30, 2011.

As at March 31, 2009 the marked-to-market value of the Company's fixed/floating interest rate derivative contracts was a liability of \$0.4 million.

**Reconciliation of Unrealized Risk Management Positions from January 1 to March 31, 2009**

|   | 2009                 |                                 |
|---|----------------------|---------------------------------|
|   | Fair Market<br>Value | Total Unrealized<br>Gain (Loss) |
| \$ 000's  |                      |                                 |
| Fair value of contracts, beginning of period                      | \$ 2,075             | \$ –                            |
| Change in fair value of contracts in place at beginning of period | (3,830)              | (3,830)                         |
| Fair value of contracts realized during the period                | 1,886                | 1,886                           |
| Fair value of contracts, end of period                            | \$ 132               | \$ (1,944)                      |

**NOTE 9. COMMITMENTS AND CONTINGENCIES**

The Company is committed to incur \$5.0 million of flow-through share eligible Canadian Exploration Expenditures, as defined in the Canadian Income Tax Act, by December 31, 2009. As at March 31, 2009 the Company had incurred approximately \$1.8 million of this commitment.

The Company is involved in legal claims associated with the normal course of operations. The Company has completed an assessment and has not recorded a contingent liability.

**NOTE 10. SUBSEQUENT EVENT**

**Natural Gas Sales Price Derivative Contract**

In May 2009, the Company entered into a fixed price swap hedge arrangement on a total of 1,000 GJ/d, for the period June 1, 2009 to December 31, 2009 at a price of \$5.60/GJ (AECO Monthly) and for the period January 1, 2010 to December 31, 2010 at a ceiling price of \$7.20/GJ (AECO Monthly).

## Corporate Information

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### OFFICERS

Jim Saunders  
*President and Chief Executive Officer*

Neil Cathcart  
*Vice President, Exploration*

Mike Fabi  
*Vice President, Engineering*

Colin Ogilvy  
*Vice President, Land*

R. Alan Steele  
*Vice President, Finance & CFO*

### BOARD OF DIRECTORS

David Fitzpatrick  
*Chairman of the Board*

Jim Brown <sup>(1)</sup> <sup>(2)</sup>

Paul Colborne <sup>(1)</sup> <sup>(3)</sup>

Craig Hruska <sup>(2)</sup> <sup>(3)</sup>

Ken Mullen <sup>(1)</sup>

Jim Saunders

Paul Starnino <sup>(2)</sup>

Warren Steckley

Member of:

<sup>(1)</sup> Audit Committee

<sup>(2)</sup> Reserves Committee

<sup>(3)</sup> Compensation, Nominating and Governance Committee

### HEAD OFFICE

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### 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.