Twin Butte Energy Ltd.

Q2 2009

For the three and six months ended June 30, 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 and six months ended June 30, 2009.

	Three months ended June 30			Six months ended June 30		
	2009	2008	% Change	**2009**	2008	% Change
FINANCIAL *($ thousands, except per share amounts)*						
Petroleum and natural gas sales	**8,359**	21,907	(62%)	**17,756**	35,707	(50%)
Cash flow (1)	**2,691**	10,178	(74%)	**7,011**	15,957	(56%)
Per share basic & diluted	**0.06**	0.23	(74%)	**0.15**	0.50	(70%)
Net loss	**(3,328)**	(1,753)	90%	**(8,186)**	(4,503)	82%
Per share basic & diluted	**(0.07)**	(0.04)	75%	**(0.17)**	(0.14)	21%
Capital expenditures	**793**	7,025	(89%)	**6,205**	15,538	(60%)
Capital dispositions	**(9,815)**	–	–	**(9,815)**	–	–
Corporate acquisitions	**–**	–	–	**–**	57,252	(100%)
Net debt (2)	**39,889**	43,230	(8%)	**39,889**	43,230	(8%)
OPERATING						
Average daily production						
Crude oil (bbl per day)	**696**	785	(11%)	**692**	663	4%
Natural gas (Mcf per day)	**12,302**	12,823	(4%)	**12,482**	11,960	4%
Natural gas liquids (bbl per day)	**118**	129	(9%)	**127**	119	7%
Barrels of oil equivalent (boe per day, 6:1)	**2,864**	3,051	(6%)	**2,899**	2,775	4%
Average sales price						
Crude oil ($ per bbl)	**63.04**	113.71	(45%)	**54.79**	104.92	(48%)
Natural gas ($ per Mcf)	**3.46**	10.85	(68%)	**4.38**	9.70	(55%)
Natural gas liquids ($ per bbl)	**45.62**	96.55	(53%)	**43.36**	89.71	(52%)
Barrels of oil equivalent ($ per boe, 6:1)	**32.07**	78.91	(59%)	**33.84**	70.69	(52%)
Operating netback ($ per boe)						
Petroleum and natural gas sales	**32.07**	78.91	(59%)	**33.84**	70.69	(52%)
Realized gain (loss) on financial derivatives	**1.58**	(9.30)	–	**4.38**	(6.33)	–
Royalties	**(0.55)**	(11.15)	(95%)	**(2.78)**	(10.92)	(75%)
Operating expenses	**(13.70)**	(13.58)	1%	**(13.54)**	(12.50)	8%
Transportation expenses	**(2.32)**	(2.88)	(19%)	**(2.49)**	(2.86)	(13%)
Operating netback	**17.08**	42.00	(59%)	**19.41**	38.08	(49%)
Wells drilled						
Gross	**0.0**	2.0	(100%)	**3.0**	7.0	(57%)
Net	**0.0**	1.9	(100%)	**3.0**	6.9	(57%)
Success (%)	**–%**	100%		**100%**	100%	
COMMON SHARES						
Shares outstanding, end of period	**47,128,425**	43,424,425	9%	**47,128,425**	43,424,425	9%
Weighted average shares outstanding – diluted	**47,128,425**	43,417,898	9%	**47,128,425**	32,228,785	46%

(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 June 30, 2009 excludes financial derivative assets less financial derivative liabilities in the amount of $0.4 million. The net amount relates to a net unrealized gain on financial derivatives recognized at June 30, 2009.

Report to Shareholders

OVERVIEW

During the second quarter of 2009 the new management team at Twin Butte continued to progress our business plan with two strategic transactions. In early June we closed the disposition of predominantly nonproducing assets in North East British Columbia for $9.8 million which, combined with the quarters modest capital program, reduced net debt by $11.5 million or 22 percent to under $40 million. Late in June we announced the acquisition of Can-Able Energy Ltd., which subsequently closed in July and has been fully integrated into our operations. This transaction significantly expanded our Deep Basin drilling inventory while adding approximately 250 boe/d in the greater Ansell area of West Central Alberta. Combined with our Jayar focus area we now have in excess of 30 deep basin drilling opportunities. Post the acquisition we have an established $72 million credit facility with approximately $29 million of unutilized capacity.

We will continue to refocus the Company in core areas with repeatable play types. Twin Butte's current drilling inventory of over 100 locations continues to be high graded awaiting a better economic environment to execute.

OPERATIONAL REVIEW

Operationally we again took a disciplined approach in the quarter focusing on production optimization and operating cost reduction initiatives while expending $0.8 million on capital projects excluding dispositions or just under 30 percent of our cash flow. The high quality and low decline nature of our assets served us well with quarter over quarter production declining just 2.5% to average 2,864 boe/d. Although operating costs in the second quarter remained essentially flat with the first quarter at $13.70 per boe, prior year third party charges amounted to approximately $2.00 per boe in the quarter which, if excluded, would have dropped our operating costs approximately 15 percent quarter over quarter. Overall cost reduction remains a focus for the Company as we diligently work to improve overall corporate strength and efficiency.

With a forward capital program designed to match cash flow to ensure balance sheet flexibility, our spending will remain modest until late in the year when we believe we will have greater visibility on gas prices. The third quarter will include exploratory work at Teal in North East British Columbia where new royalty incentives have recently been announced as well as continued development of our Provost large Original Oil in Place pool. For the remainder of 2009 a minor amount of spending will occur in the Eastern Alberta Plains with the majority of spending being focused on a deep basin rework program at Jayar and initial Cardium and Notikewin drilling at Ansell. A number of seismic programs are planned to continue to enhance inventory especially on a number of horizontal multistage fracture stimulation plays.

OUTLOOK

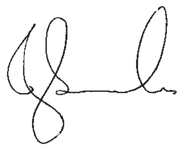
We entered the year with a mandate of value preservation and refocus. Steps have and continue to be taken to ensure balance sheet flexibility. Management continues to aggressively pursue this strategy. Uncertainty in both the commodity and equity markets have forced some business plans to lie dormant waiting for change. We have taken the opposite approach aggressively pursuing our goals while being extremely cognizant of the short term realities we are facing as a business. Our approach is working.

Our short term view on gas prices remains cautious. However, with North American drilling for natural gas at all time lows, reductions in deliverability are inevitable. This combined with slightly more optimistic longer term demand expectations lead us to believe that gas prices will start to rebound later this year or in early 2010. Management's strategy, to survive the low gas price environment through hedging, as well as operating cost and G&A reductions, while continuing to augment the Company's long term gas drilling inventory has ensured that the Company is positioned for the rebound. In addition, the Company has started to shut-in production at higher operating cost wells to preserve reserves for a higher commodity price environment.

Growth in production and drilling inventory during low capital spending environment will come through corporate initiatives. The Can-Able transaction speaks to this strategy providing growth in our company's production and reserve base while refocusing the company in areas that can make a difference. Initiatives such as this combined with noncore asset dispositions will further focus our operations while maintaining balance sheet flexibility. More of these initiatives are our priority and we will continue to focus on opportunities to create value through corporate consolidation.

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

On behalf of the Board of Directors,



Jim Saunders
President and Chief Executive Officer

August 12, 2009

Reader Advisory

Certain information regarding Twin Butte set forth in this Q2 report including management's assessment of the Company's future plans and operations, the effect on the Company and on shareholders of Twin Butte, production increases and future production levels contain forward-looking statements that involve substantial known and unknown risks and uncertainties. These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond Twin Butte's control including, without limitation, the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, lack of availability of qualified personnel, stock market volatility, ability to access sufficient capital from internal and external sources and uncertainty related to the effect of the Arrangement. Twin Butte's actual results, performance or achievements may differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that Twin Butte will derive there from. Additional information on these and other factors that could affect Twin Butte's results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com), or Twin Butte's website (www.twinbutteenergy.com). Furthermore, the forward-looking statements contained in this joint news release are made as at the date of this joint news release and Twin Butte does not undertake any obligation to update publicly or to revise any of the forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

In this Q2 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

Dated as of August 12, 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 six months ended June 30, 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 actives before changes in non-cash working capital. The Company also presents cash flow from operations per share whereby per share amounts are calculated using weighted average shares outstanding consistent with the calculation of earnings per share. These measures may not be comparable to other companies.

boe Presentation – Barrels of oil equivalent ("boe") may be misleading, particularly if used in isolation. A boe conversion rate of 6 Mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. All boe conversions in the report are derived by converting gas to oil at the ratio of six thousand cubic feet of gas to one barrel of oil.

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

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

Forward looking-information is also subject to certain factors, including risks and uncertainties that could cause actual results to differ materially from what we currently expect. These factors include risk associated with oil and gas exploration, production, marketing, and transportation such as loss of market, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risk, competition from other producers and ability to access sufficient capital from internal and external resources.

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

PETROLEUM AND NATURAL GAS SALES

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

	Three months ended June 30		Six months ended June 30	
	2009	2008	**2009**	2008
Average Twin Butte Realized Commodity Prices (1)				
Crude oil ($ per bbl)	**63.04**	113.71	**54.79**	104.92
Natural gas ($ per Mcf)	**3.46**	10.85	**4.38**	9.70
Natural gas liquids ($ per bbl)	**45.62**	96.55	**43.36**	89.71
Barrels of oil equivalent ($ per boe, 6:1)	**32.07**	78.91	**33.84**	70.69

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

	Three months ended June 30		Six months ended June 30	
	2009	2008	**2009**	2008
Benchmark Pricing				
WTI crude oil (US$ per bbl)	**59.62**	123.95	**51.35**	110.91
WTI crude oil (Cdn$ per bbl)	**69.59**	124.81	**61.94**	112.02
AECO natural gas (Cdn$ per Mcf) (2)	**3.27**	9.44	**3.97**	8.32
Exchange rate – Cdn$ / US$	**1.1672**	1.0070	**1.2062**	1.0100

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

	Three months ended June 30		Six months ended June 30	
	2009	2008	**2009**	2008
Revenue				
$000's				
Crude oil	**3,993**	8,120	**6,862**	12,652
Natural gas	**3,878**	12,655	**9,897**	21,105
Natural gas liquids	**488**	1,132	**997**	1,950
Total petroleum and natural gas sales	**8,359**	21,907	**17,756**	35,707
Average Daily Production				
Crude oil & natural gas liquids (bbl/day)	**814**	914	**819**	782
Natural gas (Mcf/day)	**12,302**	12,823	**12,482**	11,960
Total (boe/d)	**2,864**	3,051	**2,899**	2,775
% natural gas production	**72%**	70%	**72%**	72%

Revenues for the three months ended June 30, 2009 were $8.4 million, as compared to $21.9 million for the three months ended June 30, 2008 representing a decrease of $13.5 million or 62%. This decrease in revenue is attributed primarily to a year over year decrease of 59% in the average realized commodity price from $78.91 per boe in 2008 to $32.07 in 2009. In addition, second quarter 2009 production of 2,864 boe/d was lower by 6% compared to second quarter 2008 production of 3,051 boe/d.

Revenues for the six months ended June 30, 2009 were $17.8 million, as compared to $35.7 million for the six months ended June 30, 2008 representing a decrease of $17.9 million or 50%. This decrease in revenue is attributed primarily to a year over year decrease of 52% in the average realized commodity price from $70.69 per boe in 2008 to $33.84 in 2009, and partially offset by a 4% increase in production for the six months ended June 30, 2009 in the amount of 2,899 boe/d, as compared to 2,775 boe/d for the prior year comparative period.

The Company's weighting to natural gas for the second quarter of 2009 was 72% compared to a weighting of 70% for the second quarter of 2008. The Company's weighting to natural gas for the six months ended June 30, 2009 and the prior year comparative period was 72%.

ROYALTIES

Royalties for the three months ended June 30, 2009 were $0.1 million, as compared to $3.1 million for the three months ended June 30, 2008. As a percentage of revenues, the average royalty rate for the second quarter of 2009 was 2% compared to 14% for the comparative period of 2008. Royalties for the second quarter of 2009 includes a credit of $0.5 million for B.C. royalties that were overpaid in the past, primarily relating to 2008. The impact of this credit on the Company's effective royalty rate for the second quarter amounts to 5%. Excluding the impact of this credit, the Company's pro-forma royalty rate for the second quarter amounts to 7%.

Royalties for the six months ended June 30, 2009 were $1.5 million, as compared to $5.5 million for the six months ended June 30, 2008. As a percentage of revenues, the average royalty rate for the six month period ended June 30, 2009 was 8% compared to 15% for the comparative period of 2008. Royalties for the six month period ended June 30, 2009 includes the above mentioned credit of $0.5 million for B.C. royalties that were overpaid in the past, primarily relating to 2008. The impact of this credit on the Company's effective royalty rate for the six month period ended June 30, 2009 amounts to 3%. Excluding the impact of this credit, the Company's pro-forma royalty rate for the six month period ended June 30, 2009 amounts to 10%.

The Company's effective royalty rate in the 2009 periods compared to the 2008 comparative periods is lower as a result of the above mentioned B.C. royalty credit, 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 as described below.

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 section, 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. While the Company expects to drill some additional wells in the second half of 2009, this government initiative will have limited benefits on total Company royalty rates for 2009.

OPERATING EXPENSES

Operating expenses were $3.6 million or $13.70 per boe for the quarter ended June 30, 2009 as compared to $3.8 million or $13.58 per boe for the three months ended June 30, 2008. Operating expenses were $7.1 million or $13.54 per boe for the six months ended June 30, 2009 as compared to $6.3 million or $12.50 per boe for the six months ended June 30, 2008.

Included in the second quarter operating expenses are approximately $0.6 million higher which relates primarily to third party processing charges for 2007 and 2008. Excluding these costs, second quarter operating expenses would have amounted to approximately $11.40/boe, a substantial reduction from the prior year and prior quarter. The Company continues to focus on operating cost reductions with go forward operating costs to be below $12.00/boe.

TRANSPORTATION EXPENSES

Transportation expenses for the three months ended June 30, 2009 were $0.6 million or $2.32 per boe compared to $0.8 million or $2.88 per boe in the prior year comparative quarter. Transportation expenses for the six months ended June 30, 2009 were $1.3 million or $2.49 per boe compared to $1.4 million or $2.86 per boe in the prior year comparative quarter.

GENERAL AND ADMINISTRATIVE ("G&A") EXPENSES

	Three months ended June 30		Six months ended June 30	
$ 000's	**2009**	2008	**2009**	2008
G&A expenses	**1,597**	1,729	**3,010**	3,163
Recoveries	**(66)**	(88)	**(117)**	(206)
Capitalized G&A expenses	**(188)**	(662)	**(512)**	(910)
Total net G&A expenses	**1,343**	979	**2,381**	2,046
Total net G&A expenses ($/boe)	**$5.15**	$3.53	**$4.54**	$4.05

General and administrative expenses, net of recoveries and capitalized G&A, were $1.3 million or $5.15 per boe for the current quarter as compared to $1.0 million or $3.53 per boe in the prior year comparative quarter. General and administrative expenses, net of recoveries and capitalized G&A, were $2.4 million or $4.54 per boe for the six month period ended June 30, 2009 as compared to $2.1 million or $4.05 per boe in the prior year comparative period.

General and administrative expenses in the first and second quarter of 2009 were 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 the second quarter of 2009.

STOCK BASED COMPENSATION EXPENSE

During the three month period ended June 30, 2009, the Company expensed $0.3 million in stock based compensation as compared to $0.6 million in the three month period ended June 30, 2008. During the six month period ended June 30, 2009, the Company expensed $1.2 million in stock based compensation as compared to $1.4 million in the prior year comparative period. Stock based compensation expense in 2009 and 2008 includes 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 June 30, 2009, interest expense was $0.4 million, a decrease of $0.1 million from $0.5 million for the prior year comparative quarter. For the six months ended June 30, 2009, interest expense was $0.8 million, a decrease of $0.4 million from $1.2 million for the prior year comparative year. Lower interest costs in the 2009 periods compared to the 2008 periods are due to lower bank facility interest rates and lower debt levels as compared to the prior year comparative periods.

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 $0.4 million ($1.58 per boe) for the three month period ended June 30, 2009 as compared to a $2.6 million ($9.30 per boe) realized loss for the prior year comparative period. The realized gain on financial derivatives for the three month period ended June 30, 2009 amounted to a gain of $33 thousand for crude oil sales price derivatives, a gain of $462 thousand for natural gas sales price derivatives and a loss of $84 thousand for interest rate derivatives.

The Company has recognized a realized gain on financial derivatives in the amount of $2.3 million ($4.38 per boe) for the six month period ended June 30, 2009 as compared to a $3.2 million ($6.33 per boe) realized loss for the prior year comparative period. The realized gain on financial derivatives for the six month period ended June 30, 2009 amounted to a gain of $1,890 thousand for crude oil sales price derivatives, a gain of $512 thousand for natural gas sales price derivatives and a loss of $105 thousand for interest rate derivatives.

As at June 30, 2009, the Company has recognized an unrealized financial derivatives asset in the amount of $0.7 million and a unrealized financial derivatives liability in the amount of $0.3 million. The Company has recognized an unrealized loss on financial derivatives in the amount of $1.6 million for the six month period ended June 30, 2009 and $7.5 million for the prior year comparative period. The following is a summary of derivatives in effect as at June 30, 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	July 1 to December 31, 2009	US $60.00 – US $195.00	$ 38
Crude oil fair value position			$ 38

As at June 30, 2009 the marked-to-market value of the Company's crude oil sales price derivative was an asset of USD 33 thousand, or a Canadian dollar equivalent of $38 thousand.

Natural Gas Sales Price Derivative Contracts

Daily quantity per giga-joule ("GJ")	Remaining term of contract	Fixed price per GJ (AECO Monthly)	Ceiling price per GJ (AECO Monthly)	Fair market value $ 000's
5,000	July 1 to October 31, 2009	$ 4.10		$ 553
1,000	July 1, 2009 to December 31, 2009	$ 5.60		$ (166)
1,000	January 1, 2010 to December 31, 2010		$ 7.20	$ (166)
Natural gas fair value position				$ 696

As at June 30, 2009 the marked-to-market value of the Company's natural gas sales price derivative contracts was an asset of approximately $0.7 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 June 30, 2009 the marked-to-market value of the Company's fixed/floating interest rate derivative contracts was a liability of approximately $0.3 million.

DEPLETION, DEPRECIATION AND ACCRETION EXPENSE

For the three month period ended June 30, 2009, depletion and depreciation of capital assets and the accretion of the asset retirement obligations was $7.3 million or $27.25 per boe compared to $7.6 million or $26.98 per boe for the three month period ended June 30, 2008. For the six month period ended June 30, 2009, depletion and depreciation of capital assets and the accretion of the asset retirement obligations was $15.2 million or $28.32 per boe compared to $13.8 million or $26.84 per boe for the six month period ended June 30, 2008. Per unit depletion rates are consistent in both the three and six month periods ended June 30, 2009 compared to the prior year comparative periods.

INCOME TAXES

Future income tax recovery amounted to $1.2 million for the three month period ended June 30, 2009 compared to a future income tax expense in the amount of $0.3 million for the three month period ended June 30, 2008. Future income tax recovery amounted to $2.9 million for the six month period ended June 30, 2009 compared to a future income tax recovery in the amount of $2.2 million for the six month period ended June 30, 2008.

The Company has existing tax losses and pools of approximately $178.5 million of which $17.8 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 June 30, 2009 was $2.7 million, a decrease of 74% from second quarter 2008 cash flow of $10.2 million. This represents a decrease of 74% in cash flow per share basic and diluted to $0.06 per share for second quarter 2009 compared to $0.23 per share for second quarter 2008. The significant decrease in cash flow is due primarily to the 59% decrease in the average realized sales price for petroleum and natural gas sales, with an average sales price of $32.07/boe in the second quarter of 2009, compared to $78.91/boe in the second quarter of 2008.

Cash flow from operations for the six month period ended June 30, 2009 was $7.0 million, a decrease of 56% from the six month period ended June 30, 2008 cash flow of $16.0 million. This represents a decrease of 70% in cash flow per share basic and diluted to $0.15 per share for the six month period ended June 30, 2009 compared to $0.50 per share for the prior year comparative period. The significant decrease in cash flow is due primarily to the 52% decrease in the average realized sales price for petroleum and natural gas sales, with an average sales price of $33.84/boe in the six month period ended June 30, 2009, compared to $70.69/boe in the prior year comparative period.

The Company posted net loss and comprehensive loss of $3.2 million for the three month period ended June 30, 2009, equating to a basic and diluted net loss per share of $0.07, compared to a net loss and comprehensive loss of $1.8 million for the three month period ended June 30, 2008, equating to a basic and diluted net loss per share of $0.04. The Company posted net loss and comprehensive loss of $8.2 million for the six month period ended June 30, 2009, equating to a basic and diluted net loss per share of $0.17, compared to a net loss and comprehensive loss of $4.5 million for the six month period ended June 30, 2008, equating to a basic and diluted net loss per share of $0.14.

The net loss and comprehensive loss of $8.2 million for the six month period ended June 30, 2009 includes non cash items including depletion, depreciation and accretion expense of $15.2 million, future income tax recovery of $2.9 million, unrealized loss on financial derivatives of $1.6 million and stock based compensation expense of $1.2 million.

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

($ per boe)	**Q2 2009**	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007
Petroleum and natural gas sales	**32.07**	35.58	47.07	68.69	78.91	60.67	49.55	42.91
Royalties	**(0.55)**	(4.99)	(8.54)	(12.59)	(11.15)	(10.64)	(9.99)	(9.08)
Realized gain (loss) on financial derivatives	**1.58**	7.14	2.43	(3.88)	(9.30)	(2.71)	(0.84)	3.07
Operating expenses	**(13.70)**	(13.39)	(13.31)	(11.90)	(13.58)	(11.17)	(12.89)	(11.86)
Transportation expenses	**(2.32)**	(2.66)	(2.47)	(2.45)	(2.88)	(2.83)	(2.54)	(2.47)
Operating netback	**17.08**	21.68	25.18	37.87	42.00	33.32	23.29	22.57
General and administrative expenses	**(5.15)**	(3.93)	(4.61)	(2.74)	(3.53)	(4.69)	(3.70)	(3.19)
Interest expense	**(1.59)**	(1.40)	(1.82)	(1.53)	(1.81)	(3.21)	(1.96)	(2.07)
Cash flow from operations	**10.34**	16.35	18.75	33.60	36.66	25.42	17.63	17.31

QUARTERLY FINANCIAL SUMMARY

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

($ thousands, except per share amounts)	**Q2 2009**	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007
Average production (boe/d)	**2,864**	2,936	3,039	3,202	3,051	2,500	2,006	2,042
Petroleum and natural gas sales	**8,359**	9,396	13,158	20,235	21,907	13,800	9,146	8,060
Operating netback (per boe)	**17.08**	21.68	25.18	37.85	42.00	33.32	23.29	22.57
Cash flow from operations	**2,691**	4,319	5,243	9,895	10,178	5,780	3,255	3,254
Per share basic & diluted	**0.06**	0.09	0.12	0.23	0.23	0.16	0.12	0.12
Net income (loss)	**(3,328)**	(4,858)	(4,001)	5,909	(1,753)	(2,751)	4,272	(4,818)
Per share basic & diluted	**(0.07)**	(0.10)	(0.09)	0.14	(0.04)	(0.07)	0.15	(0.18)
Corporate acquisitions	**–**	–	–	–	–	57,252	–	–
Capital expenditures (net of dispositions)	**(9,022)**	5,412	9,211	17,623	7,025	8,513	3,671	3,615
Total assets	**169,448**	183,687	190,665	189,613	187,172	186,685	120,151	112,804
Net debt excluding financial derivatives liability	**39,889**	51,390	50,309	51,073	43,230	46,297	23,242	22,823

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 second quarter of 2009, the Company invested $0.8 million on capital activity. In addition, the Company completed a property disposition for net proceeds of $9.8 million. The following tables summarize capital expenditures, drilling results and undeveloped land positions for 2009 and 2008.

($ 000's)	Three months ended June 30		Six months ended June 30	
	2009	2008	**2009**	2008
Land acquisition	**1**	365	**40**	935
Geological and geophysical	**45**	308	**261**	724
Drilling and completions	**481**	5,302	**2,771**	10,617
Equipping and facilities	**49**	365	**2,586**	2,269
Property dispositions	**(9,815)**	–	**(9,815)**	–
Other	**217**	685	**547**	993
Total net capital expenditures	**(9,022)**	7,025	**(3,610)**	15,538

Drilling Results

Three months ended June 30	2009		2008	
	Gross	**Net**	Gross	Net
Crude oil	–	–	1.0	0.9
Natural gas	–	–	1.0	1.0
Dry and abandoned	–	–	–	–
Total	–	–	2.0	1.9
Success rate (%)		–%		100%

Six months ended June 30	2009		2008	
	Gross	**Net**	Gross	Net
Crude oil	–	–	4.0	3.9
Natural gas	**3.0**	**3.0**	3.0	3.0
Dry and abandoned	–	–	–	–
Total	**3.0**	**3.0**	7.0	6.9
Success rate (%)		**100%**		100%

Undeveloped Land

Six months ended June 30	2009	2008
Gross Acres	**171,309**	176,546
Net Acres	**136,120**	139,292

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 June 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'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. Subsequent to June 30, 2009, the credit facility was increased to $72.0 million in conjunction with the acquisition of Can-Able Energy Ltd.

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 June 30, 2009, the Company had $41.2 million drawn on its credit facility and total net debt of $39.9 million, excluding financial derivative contracts asset less financial derivative contracts liability in the amount of $0.4 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.

SUBSEQUENT EVENT

On July 10, 2009, the Company issued 8,229,968 Common Shares for the successful completion of a takeover bid for Can-Able Energy Ltd., a private exploration and production company. In addition to the acquisition, the Company's credit facility was increased from $65.0 million to $72.0 million.

SHARE CAPITAL

As of August 12, 2009 the Company currently has 55,358,393 Common Shares and 2,865,000 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 June 30, 2009 the Company had incurred approximately $1.9 million of this commitment.

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

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

RELATED PARTY TRANSACTIONS

During the six month period ended June 30, 2009 the Company incurred costs totaling $nil (June 30, 2008 - $132 thousand) for services rendered by companies in which 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.

Twin Butte will be required to adopt the following CICA Handbook sections as of January 1, 2011:

a) The CICA issued Handbook Section 1582 Business Combinations, which replaces Section 1581. This new standard aligns accounting for business combinations under Canadian GAAP with IFRS and is effective for business combinations entered into on or after January 1, 2011. The new standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the acquisition date. The adoption of the revised standard is expected to impact Twin Butte's financial statements only to the extent that business combinations are entered into after the effective date.

b) Consolidated Financial Statements, Section 1601, which together with Section 1602 below, replace the former consolidated financial statements standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. It is not anticipated that the adoption of this standard will have an impact on Twin Butte's financial statements.

c) Non-controlling Interests, Section 1602. The standard establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. This standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. It is not anticipated that the adoption of this standard will have an impact on Twin Butte's financial statements.

Balance Sheets

(unaudited)

	June 30 2009	December 31 2008
ASSETS		
Current Assets		
Accounts receivable	**$ 6,108,420**	$ 9,416,746
Deposits and prepaid expenses	**2,089,404**	1,651,966
Financial derivatives (note 8)	**734,129**	2,075,039
	8,931,953	13,143,751
Future income taxes	**2,771,465**	1,324,465
Property and equipment (note 3)	**157,744,172**	176,197,152
	$ 169,447,590	$ 190,665,368
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 6,864,827**	$ 15,745,084
Bank indebtedness (note 4)	**41,221,504**	45,632,924
Financial derivatives (note 8)	**308,176**	–
	48,394,507	61,378,008
Asset retirement obligation (note 5)	**9,384,847**	9,158,775
	57,779,354	70,536,783
Shareholders' Equity		
Share capital (note 6)	**130,363,426**	131,863,112
Contributed surplus (note 6)	**3,972,973**	2,747,850
Deficit	**(22,668,163)**	(14,482,377)
	111,668,236	120,128,585
	$ 169,447,590	$ 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 June 30		Six Months Ended June 30	
	2009	2008	**2009**	2008
REVENUE				
Petroleum and natural gas sales	**$ 8,359,283**	$ 21,906,680	**$ 17,755,636**	$ 35,706,834
Royalties	**(143,897)**	(3,096,066)	**(1,461,228)**	(5,516,992)
Realized gain (loss) on financial derivatives	**410,833**	(2,580,923)	**2,296,675**	(3,196,846)
Unrealized gain (loss) on financial derivatives (note 8)	**294,533**	(3,377,163)	**(1,649,087)**	(7,467,960)
	8,920,752	12,852,528	**16,941,996**	19,525,036
EXPENSES				
Operating	**3,571,616**	3,770,020	**7,107,533**	6,311,774
Transportation	**605,842**	798,980	**1,307,787**	1,443,359
General and administrative	**1,342,995**	979,424	**2,381,131**	2,045,825
Stock based compensation	**254,606**	613,294	**1,225,124**	1,382,730
Interest	**414,360**	503,646	**783,982**	1,234,895
Depletion, depreciation and accretion	**7,271,753**	7,644,086	**15,199,094**	13,846,942
	13,461,172	14,309,450	**28,004,651**	26,265,525
Loss before income taxes	**(4,540,420)**	(1,456,922)	**(11,062,655)**	(6,740,489)
Income taxes				
Future tax (recovery) expense	**(1,212,407)**	295,586	**(2,876,869)**	(2,237,180)
	(1,212,407)	295,586	**(2,876,869)**	(2,237,180)
Net loss and comprehensive loss	**(3,328,013)**	(1,752,508)	**(8,185,786)**	(4,503,309)
Deficit, beginning of period	**(19,340,150)**	(14,637,873)	**(14,482,377)**	(11,887,072)
Deficit, end of period	**$ (22,668,163)**	$ (16,390,381)	**$ (22,668,163)**	$ (16,390,381)
Basic & diluted loss per share	**$ (0.07)**	$ (0.04)	**$ (0.17)**	$ (0.14)
Weighted average common shares outstanding				
Basic & diluted	**47,128,425**	43,417,898	**47,128,425**	32,228,785

See accompanying notes to financial statements

Statements of Cash Flows

(unaudited)	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	**2009**	2008
Cash provided by (used in):				
OPERATIONS				
Net loss	**$ (3,328,013)**	$ (1,752,508)	**$ (8,185,786)**	$ (4,503,309)
Items not involving cash:				
Depletion, depreciation and accretion	**7,271,753**	7,644,086	**15,199,094**	13,846,942
Future tax (recovery) expense	**(1,212,407)**	295,586	**(2,876,869)**	(2,237,180)
Unrealized (gain) loss on financial derivatives	**(294,533)**	3,377,163	**1,649,087**	7,467,960
Stock based compensation	**254,606**	613,294	**1,225,124**	1,382,730
	2,691,406	10,177,621	**7,010,650**	15,957,143
Expenditures on asset retirement obligations	**(146,322)**	(112,999)	**(129,554)**	(112,999)
Changes in non-cash working capital	**888,916**	(207,006)	**2,783,438**	(7,010,404)
	3,434,000	9,857,616	**9,664,534**	8,833,740
FINANCING				
Change in bank indebtedness	**(8,037,545)**	(3,338,389)	**(4,411,420)**	887,467
Bank financing and share issue costs	**(65,492)**	26,190	**(69,817)**	(7,560)
	(8,103,037)	(3,312,199)	**(4,481,237)**	879,907
INVESTING				
Expenditures on property and equipment	**(792,943)**	(7,024,537)	**(6,205,287)**	(15,538,265)
Acquisition expenditures	**–**	–	**–**	(362,668)
Proceeds on disposition of property and equipment	**9,814,800**	–	**9,814,800**	–
Changes in non-cash working capital	**(4,352,820)**	479,120	**(8,792,810)**	6,187,286
	4,669,037	(6,545,417)	**(5,183,297)**	(9,713,647)
Decrease in cash and cash equivalents	**–**	–	**–**	–
Cash and cash equivalents, beginning of period	**–**	–	**–**	–
Cash and cash equivalents, end of period	**$ –**	$ –	**$ –**	$ –
Cash interest paid	**$ 376,572**	$ 406,455	**$ 729,590**	$ 1,053,433

See accompanying notes to financial statements

Notes to Financial Statements – June 30, 2009 (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, 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.

Twin Butte will be required to adopt the following CICA Handbook sections as of January 1, 2011:

a) The CICA issued Handbook Section 1582 Business Combinations, which replaces Section 1581. This new standard aligns accounting for business combinations under Canadian GAAP with IFRS and is effective for business combinations entered into on or after January 1, 2011. The new standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the acquisition date. The adoption of the revised standard is expected to impact Twin Butte's financial statements only to the extent that business combinations are entered into after the effective date.

b) Consolidated Financial Statements, Section 1601, which together with Section 1602 below, replace the former consolidated financial statements standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. It is not anticipated that the adoption of this standard will have an impact on Twin Butte's financial statements.

c) Non-controlling Interests, Section 1602. The standard establishes the accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. This standard requires a non-controlling interest in a subsidiary to be classified as a separate component of equity. In addition, net earnings and components of other comprehensive income are attributed to both the parent and non-controlling interest. It is not anticipated that the adoption of this standard will have an impact on Twin Butte's financial statements.

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

			June 30, 2009	December 31, 2008
	Cost	Accumulated Depletion & Depreciation	**Net Book Value**	Net Book Value
Petroleum and natural gas properties	$ 228,774,761	$ 71,122,581	**$ 157,652,180**	$ 176,080,040
Office and computer equipment	205,588	113,596	**91,992**	117,112
Total	$ 228,980,349	$ 71,236,177	**$ 157,744,172**	$ 176,197,152

The Company has capitalized $511,652 of general and administrative expenses directly related to exploration and development activities for the six month period ended June 30, 2009 ($1,726,246 - December 31, 2008).

The cost of undeveloped property excluded from the depletion base as at June 30, 2009 was $16,689,609 ($16,597,792 – December 31, 2008). Future development costs on proved undeveloped reserves of $37,851,200 as at June 30, 2009 are included in the calculation of depletion ($41,683,700 – December 31, 2008).

NOTE 4. BANK INDEBTEDNESS

As at June 30, 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.

Subsequent to June 30, 2009 (note 10), the Company amended its credit facility with an increase to the demand revolving credit facility to $72.0 million.

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 $9,384,847 at June 30, 2009, based on a total future liability of $15,979,359. 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:

	Six Months Ended June 30, 2009	Year Ended December 31, 2008
Asset retirement obligation, beginning of period	**$ 9,158,775**	$ 6,945,541
Liabilities incurred	**95,000**	482,302
Liabilities settled	**(129,554)**	(88,617)
Acquisitions	**–**	1,913,109
Disposition	**(4,960)**	–
Revisions in estimated cash outflows	**(40,963)**	(663,818)
Accretion of asset retirement obligation	**306,549**	570,258
Asset retirement obligation, end of period	**$ 9,384,847**	$ 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
Common Shares		
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	–	(49,570)
Balance, June 30, 2009	**47,128,425**	**$ 130,363,426**

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 June 30, 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 June 30, 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 June 30, 2009:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2008	3,458,000	$ 2.21
Granted	2,017,500	0.64
Cancelled	(1,612,000)	2.69
Forfeited	(998,500)	2.00
Outstanding at June 30, 2009	**2,865,000**	**$ 0.91**

There were 57,667 options exercisable as at June 30, 2009 at an average exercise price of $2.67 per share.

	Options Outstanding					
	June 30, 2009			December 31, 2008		
Exercise Price	**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 – 0.91	**1,630,000**	**0.66**	**4.81**	–	–	–
$0.97 – 1.24	**1,062,000**	**1.01**	**4.41**	1,112,000	1.02	4.90
$2.45 – 3.65	**173,000**	**2.67**	**3.76**	2,346,000	2.78	4.24
	2,865,000	**0.91**	**4.60**	3,458,000	2.21	4.45

Stock Based Compensation

The Company accounts for its stock based compensation plan using the fair value method. Under this method, a compensation cost is charged over the vesting period for options granted to employees, consultants, officers, and directors with a corresponding increase to contributed surplus.

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

	Six Months Ended June 30, 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	**167,684**	918,202
Stock based compensation for stock options cancelled	**1,218,307**	1,002,738
Stock based compensation for stock options forfeited	**(160,868)**	(185,097)
Stock based compensation for stock options exercised	**–**	(2,984)
Contributed surplus balance, end of period	**$ 3,972,973**	$ 2,747,850

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:

	Six Months Ended June 30, 2009	Year Ended 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	**$0.24**	$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 June 30		Six months ended June 30	
	2009	**2008**	2009	2008
Weighted average number of basic shares	**47,128,425**	**43,417,898**	47,128,425	32,228,785
Effect of dilutive securities:				
Employee stock options	**–**	**–**	–	–
Weighted average number of diluted shares	**47,128,425**	**43,417,898**	47,128,425	32,228,785

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 six month period ended June 30, 2009, the Company incurred costs totaling $nil ($561 thousand – December 31, 2008) for oilfield services rendered by companies in which an officer and director of Twin Butte is a director. These costs were incurred in the normal course of business and recorded at the exchange amount. As at June 30, 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 June 30, 2009		As at December 31, 2008	
$ 000's	**Carrying Amount**	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
Financial Assets				
Risk management assets	**$ 734**	**$ 734**	$ 2,075	$ 2,075
Accounts receivable	**6,108**	**6,108**	9,417	9,417
Financial Liabilities				
Risk management liabilities	**$ 308**	**$ 308**	$ –	$ –
Accounts payable and accrued liabilities	**6,865**	**6,865**	15,745	15,745
Bank indebtedness	**41,222**	**41,222**	45,633	45,633

Risk Management Assets and Liabilities

Net Risk Management Position

$ 000's	June 30, 2009	December 31, 2008
Risk Management		
Current asset	$ 734	$ 2,075
Current liability	308	–
Net Risk Management Asset (Liability)	$ 426	$ 2,075

Summary of Unrealized Risk Management Positions

	As at June 30, 2009			As at December 31, 2008		
$ 000's	Asset	Liability	Net	Asset	Liability	Net
Commodity Prices						
Natural gas	$ 696	$ –	$ 696	$ –	$ –	$ –
Crude oil	38	–	38	2,075	–	2,075
Interest Rate						
Interest rate	–	(308)	(308)	–	–	–
Total Fair Value	$ 734	$ (308)	$ 426	$ 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 June 30, 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	July 1 to December 31, 2009	US $60.00 – US $195.00	38
Crude oil fair value position			$38

As at June 30, 2009 the marked-to-market value of the Company's crude oil sales price derivative was an asset of USD 33 thousand, or a Canadian dollar equivalent of $38 thousand.

Natural Gas Sales Price Derivative Contracts

Daily quantity per giga-joule ("GJ")	Remaining term of contract	Fixed price per GJ (AECO Monthly)	Ceiling Price per GJ (AECO Monthly)	Fair market Value $ 000's
5,000	July 1, 2009 to October 31, 2009	$4.10		$553
1,000	July 1, 2009 to December 31, 2009	$5.60		$309
1,000	January 1, 2010 to December 31, 2010		$7.20	$(166)
Natural gas fair value position				$696

As at June 30, 2009 the marked-to-market value of the Company's natural gas sales price derivative contracts was an asset of $0.7 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 June 30, 2009 the marked-to-market value of the Company's fixed/floating interest rate derivative contracts was a liability of $0.3 million.

Reconciliation of Unrealized Risk Management Positions from January 1 to June 30, 2009

	2009	
$ 000's	Fair Market Value	Total Unrealized Gain (Loss)
Fair value of contracts, beginning of period	$ 2,075	$ –
Change in fair value of contracts in place at beginning of period	(3,946)	(3,946)
Fair value of contracts realized during the period	2,297	2,297
Fair value of contracts, end of period	$ 426	$ (1,649)

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 June 30, 2009 the Company had incurred approximately $1.9 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

Acquisition of Can-Able Energy Ltd.

On July 10, 2009, the Company issued 8,229,968 Common Shares for the successful completion of a takeover bid for Can-Able Energy Ltd., a private exploration and production company. In addition to the acquisition, the Company's credit facility was increased from $65.0 million to $72.0 million.

Corporate Information

OFFICERS

Jim Saunders
President and Chief Executive Officer

Neil Cathcart
Vice President, Exploration

Mike Fabi
Vice President, Engineering

Bruce Hall
Vice President, Corporate Development

Colin Ogilvy
Vice President, Land

R. Alan Steele
Vice President, Finance & CFO

BOARD OF DIRECTORS

David Fitzpatrick (3)
Chairman of the Board

Jim Brown (1) (2)

Paul Colborne (1) (3)

Jim Saunders

Paul Starnino (2) (3)

Warren Steckley (1) (2)

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

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BANKERS

National Bank of Canada, Calgary, AB

SOLICITORS

Burnet, Duckworth & Palmer LLP,
Calgary, AB

ENGINEERS

McDaniel & Associates Consultants Ltd. Calgary, AB

REGISTRAR & TRANSFER AGENT

Valiant Trust Company
Calgary, AB

STOCK EXCHANGE LISTING

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