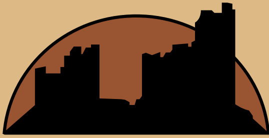


Twin Butte Energy Ltd.

ANNUAL REPORT 2009

Highlights

	Three months ended December 31			Twelve months ended December 31		
	2009	2008	% Change	**2009**	2008	% Change
FINANCIAL *($ thousands, except per share amounts)*						
Petroleum and natural gas sales	**22,150**	13,158	68%	**48,425**	69,100	(30%)
Funds flow [(1)]	**7,714**	5,243	47%	**17,631**	31,096	(43%)
Per share basic & diluted	**0.08**	0.12	(33%)	**0.28**	0.74	(62%)
Net loss	**(961)**	(4,001)	(76%)	**(12,688)**	(2,595)	389%
Per share basic & diluted	**(0.01)**	(0.09)	(89%)	**(0.20)**	(0.06)	(233%)
Capital expenditures	**8,061**	9,211	(12%)	**16,309**	42,372	(62%)
Capital dispositions	**(9,499)**	–	–	**(19,313)**	–	–
Corporate acquisitions	**120,539**	–	–	**131,178**	57,252	129%
Net debt [(2)]	**102,911**	50,309	105%	**102,911**	50,309	105%
OPERATING						
Average daily production						
Crude oil (bbl per day)	**1,810**	806	125%	**971**	745	30%
Natural gas (Mcf per day)	**21,664**	12,669	71%	**14,743**	12,474	18%
Natural gas liquids (bbl per day)	**279**	121	131%	**176**	125	41%
Barrels of oil equivalent (boe per day, 6:1)	**5,699**	3,039	88%	**3,604**	2,949	22%
Average sales price						
Crude oil ($ per bbl)	**66.22**	57.00	16%	**62.42**	94.34	(34%)
Natural gas ($ per Mcf)	**4.78**	7.18	(33%)	**4.26**	8.69	(51%)
Natural gas liquids ($ per bbl)	**62.07**	50.88	22%	**52.54**	81.03	(35%)
Barrels of oil equivalent ($ per boe, 6:1)	**42.24**	47.07	(10%)	**36.82**	64.03	(42%)
Operating netback ($ per boe)						
Petroleum and natural gas sales	**42.24**	47.07	(10%)	**36.82**	64.03	(42%)
Realized gain (loss) on financial derivatives	**0.38**	2.43	(84%)	**2.49**	(3.39)	(173%)
Royalties	**(7.27)**	(8.54)	(15%)	**(4.73)**	(10.76)	(56%)
Operating expenses	**(12.94)**	(13.31)	(3%)	**(13.19)**	(12.54)	5%
Transportation expenses	**(1.58)**	(2.47)	(36%)	**(2.11)**	(2.65)	(20%)
Operating netback [(3)]	**20.83**	25.18	(17%)	**19.28**	34.69	(44%)
Wells drilled						
Gross	**13.0**	1.0	1,200%	**18.0**	21.0	(14%)
Net	**6.4**	0.6	967%	**11.5**	20.1	(43%)
Success (%)	**100%**	100%	–	**91%**	90%	1%
COMMON SHARES						
Shares outstanding, end of period	**109,714,335**	47,128,425	133%	**109,714,335**	47,128,425	133%
Weighted average shares outstanding – basic	**100,261,128**	43,948,559	128%	**62,392,250**	41,883,092	49%

(1) Funds flow means cash flow from operating activities before changes in non-cash working capital and expenditures on asset retirement obligations. See Management's Discussion & Analysis Non-GAAP Measures.

(2) Net debt is defined as the sum of working capital deficiency and other liabilities excluding financial derivative assets or liabilities. Net debt is a Non-GAAP Measure.

(3) Operating netback is a Non-GAAP Measure and is the net of revenue, realized gains (loss) on financial derivatives, royalties, operating and transportation expenses.

Report to Shareholders

Highlights of Twin Butte's highly successful 2009 year of redefinition are as follows:

> Completed two strategic corporate acquisitions valued at $131.2 million which significantly enhanced the Company's oil exposure, drilling inventory and overall asset quality.

> Executed an exploration and development capital program of $16.3 million which included the drilling of 18 gross (11.5 net) wells at a 91 percent success rate.

> Completed five non-core asset dispositions valued at $19.3 million to enhance balance sheet flexibility and further focus the Company's asset base. An additional three dispositions valued at $6.5 million are anticipated to be closed in Q1. Net debt at the end of 2009 was $102.9 million which will likely be reduced to approximately $80 million by the end of Q1 2010.

> More than doubled corporate production at the end of 2009 to 6,300 boe per day (post dispositions) from 3,000 boe per day at the end of 2008 positioning the Company for cost effective organic growth through 2010. Twin Butte anticipates corporate production will exceed 6,600 boe per day (post dispositions) in April.

> Increased total proved plus probable oil and gas reserves by 188 percent or 19.9 million barrels of oil equivalent ("boe") to 30.5 million boe. At December 31, 2009, 60 percent of the Twin Butte's reserves were on stream.

> Generated superior finding, development and acquisition ("FD&A") costs of $5.98 per boe on a proved plus probable basis and $9.59 per boe on a proved basis.

> Generated a capital recycle ratio of 3.2 times on proved plus probable FD&A.

> Increased reserve life index to 13.3 years based on proved plus probable reserves and 8.2 years based on proved reserves.

> Established a net asset value per share based on proved plus probable reserves of $3.13 ($3.06 fully diluted).

CORPORATE:

Subsequent to year end 2009, the enhancement and redefinition of the Company continues. Twin Butte was pleased to complete the issuance of 18.4 million shares for gross proceeds of $23 million in early February 2010. Proceeds of the financing as well as noncore asset dispositions has significantly strengthened the Company's balance sheet with anticipated net debt at the end of Q1 2010 to be approximately $80 million with a current credit facility of $120 million.

The Company's program of noncore asset rationalization continues. In 2009 we closed the disposition of five producing and nonproducing assets for $19.3 million representing 220 boe per day of production. In Q1 of 2010 we anticipate closing an additional three dispositions valued at $6.5 million representing approximately 150 boe per day. The Company has been able to realize excellent value from its asset sales in an extremely competitive disposition market. Twin Butte will continue with a methodical program of disposing of noncore assets to further focus the Company's operations and to generate cash to supplement the planned capital program in our core growth areas.

OPERATIONS:

Activity levels remain brisk in our core growth areas. The Company anticipates spending a minimum of $35 million (net of provincial drilling credits) in 2010 with over 90 percent focused on oil based activities. Oil production weighting will grow to over 50 percent by the end of the year based on this capital plan. Twin Butte is in an enviable position in that it has a significant inventory of both oil and gas drilling locations (185 net oil and 230 net gas) therefore allowing us to prioritize capital to maximize return and minimize payout times.

Although the Company anticipates generating rates of return in excess of 50 percent at $5.00/mcf gas pricing on our gas activities, the current disparity between oil and natural gas prices combined with the short payout of capital on our oil based expenditures is driving our focus on oil. Gas focused capital will be spent to define three different scalable gas plays in the Eastern Plains and the Deep Basin of Alberta. This derisking will ensure the Company's significant resource style gas growth opportunities are ready to be executed upon when commodity pricing dictates.

This base capital program will be funded entirely by corporate cash flow therefore preserving and enhancing balance sheet flexibility. Proceeds of noncore asset sales post Q1 will be directed to increasing the base capital program in our core growth areas.

At Frog Lake in the Eastern Plains of Alberta the Company has recently completed a 23 gross (12 net) oil well drilling program at a 100 percent success rate. This follows a 14 gross (7 net) oil well program completed in Q4 of 2009. Production from Frog Lake has increased appreciably since the Company acquired the property late in 2009 and the Company anticipates this profitable growth to continue throughout 2010. A 15 square km 3D seismic survey was completed in Q1 which could significantly enhance our current sizable drilling inventory of 300 (150 net) locations. Over the remainder of 2010 we anticipate drilling an additional 60 (30 net) wells at Frog Lake. With current netbacks exceeding $35 per bbl the Company is generating recycle ratios of greater than 4 times and payouts of less than 10 months. With over 350 million barrels of oil in place based on pre seismic geologic mapping, and a low recovery factor to date of two percent, significant upside potential remains at Frog Lake for years to come.

At Bruce in the Eastern Plains, two 100 percent interest horizontal wells were recently drilled. The first delineation well to a Q4 2009 oil discovery has commenced production at over 100 boe per day (80% oil). Based on 3D seismic coverage the opportunity exists for an additional 10 wells on the play. Additional pool delineation drilling will commence post breakup in Q2 and will continue over the remainder of 2010.

The second horizontal well targeted gas in the Viking formation and was completed with 8 multistage fracs. Early production testing appears positive therefore suggesting an additional derisking well will be drilled later in 2010. The Company has amassed a significant land position of over forty, 100 percent interest sections on the play. This fit for purpose scalable play type is exactly the direction our exploration efforts have been focused. Assuming our technical assumptions are correct, over 100 net horizontal wells could be drilled on existing lands.

In the Deep Basin of Alberta the Company plans to drill in the 2nd half of the year a minimum of two horizontal wells which will be multistage fracture treated targeting the liquids rich Cardium and Notikewin for gas. These wells should derisk the plays which have been already successfully developed by offset competitors. Each of these plays could lead to scalable multiwell programs when gas prices return to better economic levels.

OUTLOOK:

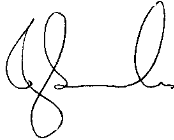
As highlighted by the Company's 2009 financial performance and year end reserve report, 2009 was a year of positive growth and transition. The acquisition of Can-able Energy Inc. in July and Buffalo Resources Corp. in October were significant steps in our plan to build a larger, more focused, higher asset quality Company. Our organic exploration and development program of approximately $16.3 million, while significantly weighted to the fourth quarter ($8.0 million), maintained our base production while establishing scalable play types in core areas that can make a meaningful difference to future corporate growth. Organic growth will continue through 2010 with our first quarters results being only an early indication of the growth potential of our established drilling inventory.

When the new management team joined Twin Butte in late 2008, they established a new strategy and corporate direction. Throughout 2009 we have remained disciplined in pursuing this strategy. We have done what we said we would do. This has led to all aspects of corporate performance being positive in 2009. At year end over 80 percent of our corporate reserve evaluation was focused in our core growth areas. Our plan is working and year end 2009 performance shows that. The plan will continue to unfold in 2010.

On a corporate note we would like to acknowledge the guidance and direction the Company received from Paul Starnino and Paul Colborne, who have stepped down from their board positions in the first quarter of 2010. These two gentlemen provided excellent insight into the business and we wish them all the best in their future endeavors.

Twin Butte is a value oriented emerging intermediate producer with a significant repeatable and scalable drilling inventory focused on large original oil in place and large original gas in place play types. With a stable low decline production base the Company is well positioned to live within cash flow while providing shareholders with sustainable growth potential over both the short and long term. The 2010 capital plan is highly focused to two core areas (Alberta Plains and West Central Alberta/ Deep Basin) while providing the flexibility to quickly be accelerated should economic conditions allow. Twin Butte is committed to continually enhance its asset quality while focusing on per share growth.

On behalf of the Board of Directors,



Jim Saunders
President and C.E.O.

March 23, 2010

Reader Advisory

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

In this 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 March 23, 2010

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 for the year ended December 31, 2009 and the unaudited financial statements and management's discussion and analysis for the three quarters ended March 31, 2009, June 30, 2009 and September 30, 2009.

Basis of Presentation – The reporting and measurement currency is the Canadian dollar.

Non-GAAP Measures – Certain measures in this document do not have any standardized meaning as prescribed by Canadian generally accepted accounting principles ("GAAP") such as operating netback, funds flow, funds flow from operations, funds flow per share, debt, net debt and capitalization and, therefore, are considered non-GAAP measures. The Management's Discussion and Analysis ("MD&A") contains the term funds flow from operations or funds flow which should not be considered an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with GAAP as an indicator of the Company's performance. All references to funds flow from operations or funds flow throughout this report are based on cash flow from operating actives before changes in non-cash working capital and expenditures on asset retirement obligations. The Company also presents funds 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 similar measures presented by other issuers. These measures have been described and presented in this document in order to provide shareholders and potential investors with additional information regarding the Company's liquidity and its ability to generate funds to finance its operations. Management's use of these measures has been disclosed further in this document as these measures are discussed and presented.

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

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

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

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

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

PETROLEUM AND NATURAL GAS SALES

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

	Three months ended December 31		Twelve months ended December 31	
	2009	2008	**2009**	2008
Average Twin Butte Realized Commodity Prices [1]				
Crude oil ($ per bbl)	**66.22**	57.00	**62.42**	94.34
Natural gas ($ per Mcf)	**4.78**	7.18	**4.26**	8.69
Natural gas liquids ($ per bbl)	**62.07**	50.88	**52.54**	81.03
Barrels of oil equivalent ($ per boe, 6:1)	**42.24**	47.07	**36.82**	64.03
(1) The average selling prices reported are before realized financial instrument gains/losses and transportation charges.				
Benchmark Pricing				
WTI crude oil (US$ per bbl)	**76.19**	58.80	**61.80**	99.67
WTI crude oil (Cdn$ per bbl)	**80.48**	71.15	**70.54**	105.62
AECO natural gas (Cdn$ per Mcf) [2]	**4.50**	6.69	**3.95**	8.13
Exchange rate – Cdn$/US$	**1.06**	1.21	**1.14**	1.07
(2) The AECO natural gas price reported is the average daily spot price.				
Revenue				
$000's				
Crude oil	**11,022**	4,226	**22,126**	25,719
Natural gas	**9,533**	8,365	**22,933**	39,678
Natural gas liquids	**1,595**	567	**3,366**	3,703
Total petroleum and natural gas sales	**22,150**	13,158	**48,425**	69,100
Average Daily Production				
Crude oil & natural gas liquids (bbl/day)	**2,089**	927	**1,147**	870
Natural gas (Mcf/day)	**21,664**	12,669	**14,743**	12,474
Total (boe/d)	**5,699**	3,039	**3,604**	2,949
% natural gas production	**63%**	70%	**68%**	71%

Revenues for the three months ended December 31, 2009 were $22.2 million, as compared to $13.2 million for the three months ended December 31, 2008 representing an increase of $9.0 million or 68%. This increase in revenue is attributed primarily to an increase of 88% in average quarterly production from 3,039 boe/d in the fourth quarter of 2008 to 5,699 boe/d in the fourth quarter of 2009, partially offset by a quarter over quarter decrease of 10% in the average realized commodity price from $47.07 per boe in 2008 to $42.24 in 2009.

The significant average daily production increase of 88% quarter over quarter relates primarily to production acquired in the acquisition of Buffalo Resources Corp. that was completed October 14, 2009. Average daily production for the fourth quarter of 2009 includes production from the acquisition of Buffalo Resources Corp. for 78 days of the 92 day quarter.

Revenues for the year ended December 31, 2009 were $48.4 million, as compared to $69.1 million for the year ended December 31, 2008 representing a decrease of $20.7 million or 30%. This decrease in revenue is attributed primarily to a year over year decrease of 42% in the average realized commodity price from $64.03 per boe in 2008 to $36.82 in 2009, offset with a 22% increase in production for the year ended December 31, 2009 of 3,604 boe/d, compared to 2,949 boe/d for the prior year. Production average for the year increased mainly as a result of the July 10, 2009 acquisition of Can-Able Energy Inc. and the October 14, 2009 acquisition of Buffalo Resources Corp., offset by a significant decrease in drilling and completions in the first three quarters of 2009, production declines, and as a result of minor non-core area production sold in the year.

The Company's weighting to natural gas for the fourth quarter of 2009 was 63% compared to a weighting of 70% for the fourth quarter of 2008. The Company's weighting to natural gas for the year ended December 31, 2009 was 68% compared

to 71% in the prior year comparative period. The Company's weighting to natural gas has decreased in the fourth quarter of 2009 as a result of production acquired in the acquisition of Buffalo Resources Corp. whose weighting to natural gas was approximately 60%. Based on current drilling plans for 2010, it is anticipated that natural gas will account for closer to 50% of total production by year end 2010.

ROYALTIES

Royalties for the three months ended December 31, 2009 were $3.8 million, as compared to $2.4 million for the three months ended December 31, 2008. As a percentage of revenues, the average royalty rate for the fourth quarter of 2009 was 17% compared to 18% for the comparative period of 2008, mainly as a result of lower natural gas prices.

Royalties for the year ended December 31, 2009 were $6.2 million, as compared to $11.6 million for the year ended December 31, 2008. As a percentage of revenues, the average royalty rate for the twelve month period ended December 31, 2009 was 13% compared to 17% for the comparative period of 2008.

The Company's effective royalty rate in the 2009 periods compared to the 2008 comparative periods is lower. In addition to the effect of lower prices referenced above, 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 2010 will be comparable to 2009 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 crown lands, 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 five 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 2010 given that its current wells converted to the NRF effective January 1, 2009 and current plans call for limited gas drilling in 2010. 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, 2009.

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 of $200 per meter drilled 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. On June 25, 2009 the Alberta government extended these incentives to March 31, 2011. The Company is budgeted to drill some additional wells in 2010 that will benefit from the new well incentive program. Based on current drilling plans the Company expects to earn approximately $3.0 million in drilling royalty credits for 2010, but the majority of planned drilling in 2010 will not be eligible as they will not be on crown lands.

On March 11, 2010, the Alberta Government announced that it will make additional modifications to the province's Crown royalty framework. Specifically, numerous key recommendations from the Alberta Government-sponsored Competitiveness Review are planned to be implemented, with the final changes to be confirmed and announced by May 31, 2010. The proposed changes include:

- The current maximum five percent royalty rate for the first twelve months of production up to a maximum of 50,000 bbls of oil or 500,000 Mcf of natural gas will become a permanent incentive. Previously, this incentive was scheduled to end March 31, 2011;
- The maximum royalty rate for crude oil wells will be reduced to 40% from the previous 50% rate. This change will be effective January 1, 2011;

> The maximum royalty rate for natural gas wells will be reduced to 36% from the previous 50% rate. This change will be effective January 1, 2011; and,

> Effective January 1, 2011, no Alberta drilled wells will be allowed to select the transitional royalty program.

OPERATING EXPENSES

Operating expenses were $6.8 million or $12.94 per boe for the quarter ended December 31, 2009 as compared to $3.7 million or $13.31 per boe for the three months ended December 31, 2008. Operating expenses were $17.4 million or $13.19 per boe for the year ended December 31, 2009 as compared to $13.5 million or $12.54 per boe for the year ended December 31, 2008.

Operating costs on a per boe basis in the second half of 2009 have decreased from the first and second quarter of 2009. The Company continues to focus on operating cost reductions. However, historical operating costs of properties acquired from Buffalo Resources Corp., primarily the core heavy oil property at Frog Lake and Pincher Creek gas property, have been higher than Twin Butte's historical operating costs on a per boe basis. The Company is continuing to focus on operating efficiencies and is striving to lower operating costs further in 2010 as we work through the new properties.

TRANSPORTATION EXPENSES

Transportation expenses for the three months ended December 31, 2009 were $0.8 million or $1.58 per boe compared to $0.7 million or $2.47 per boe in the prior year comparative quarter. Transportation expenses for the year ended December 31, 2009 were $2.8 million or $2.11 per boe compared to $2.9 million or $2.65 per boe in the prior year comparative period. The Company is budgeting transportation expenses on a per boe basis to be consistent with the yearly 2009 average, but we are aware of various pipelines that are looking to increase their fee basis which may put upward pressure on these costs.

GENERAL AND ADMINISTRATIVE ("G&A") EXPENSES

	Three months ended December 31		Twelve months ended December 31	
$ 000's	**2009**	2008	**2009**	2008
G&A expenses	**2,465**	1,796	**6,698**	6,267
Recoveries	**(206)**	(150)	**(385)**	(401)
Capitalized G&A expenses	**(358)**	(358)	**(1,120)**	(1,726)
Total net G&A expenses	**1,901**	1,288	**5,193**	4,140
Total net G&A expenses ($/boe)	**$3.63**	$4.62	**$3.95**	$3.84

General and administrative expenses, net of recoveries and capitalized G&A, were $1.9 million or $3.63 per boe for the current quarter as compared to $1.3 million or $4.62 per boe in the prior year comparative quarter. General and administrative expenses, net of recoveries and capitalized G&A, were $5.2 million or $3.95 per boe for the year ended December 31, 2009 as compared to $4.1 million or $3.84 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. General and administrative expenses in the 2009 periods are higher than the 2008 comparative periods primarily as a result of these severance costs. In addition, G&A expenses were increased in the fourth quarter from the increased staffing and other office related costs resulting from the acquisition of Buffalo Resources Corp.

General and administrative expenses on a per boe basis is budgeted to decrease in 2010 compared to the fourth quarter of 2009 as a result of the completed integration with Buffalo Resources Corp. and resulting reduction in transitional staffing costs.

STOCK BASED COMPENSATION EXPENSE

During the three month period ended December 31, 2009, the Company expensed $0.1 million in stock based compensation as compared to $0.1 million in the three month period ended December 31, 2008. During the year ended December 31, 2009, the Company expensed $1.4 million in stock based compensation as compared to $1.7 million in the prior year comparative period. Stock based compensation expense in 2009 and 2008 was significantly impacted by a charge for stock based compensation expense recorded on the remaining unrecognized fair value of outstanding stock options that were cancelled in both periods. The amount of that expense is $1.2 million in the year ended December 31, 2009 and $1.0 million in the prior year.

INTEREST EXPENSE

For the three months ended December 31, 2009, interest expense was $1.3 million, an increase of $0.8 million from the prior year comparative period interest expense of $0.5 million. For the year ended December 31, 2009, interest expense was $2.5 million, an increase of $0.3 million from $2.2 million for the prior year comparative year. Higher interest costs in the 2009 periods compared to the 2008 periods are due primarily to higher debt levels as compared to the prior year comparative periods, resulting primarily from the acquisition of Buffalo Resources Corp.

The Company's effective interest rate for the year ended December 31, 2009 was 4.4% compared to 5.0% in 2008. The Company's current interest charge on bank borrowings is bank prime of 2.25% plus a margin of 2.5% for a total effective rate of 4.75%. This effective rate excludes any discount received through the purchase of banker's acceptances as a borrowing facility.

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.

Entering into financial derivatives is looked upon as a way for the Company to reduce go forward operating risk by increasing the predictability of a portion of the Company's future revenue stream. However, there are risks that our counterparty becomes illiquid or the Company may not have the actual sales volumes to offset the hedge position. To reduce these risks the Company deals with major Canadian banks as our counterparty on financial derivatives and generally limits the volumes hedged to approximately 50% or less of forecasted sales volumes.

The Company has recognized a realized gain on financial derivatives in the amount of $0.2 million ($0.38 per boe) for the three month period ended December 31, 2009 as compared to a $0.7 million ($2.43 per boe) realized gain for the prior year comparative period. The realized gain on financial derivatives for the three month period ended December 31, 2009 amounted to a gain of $289 thousand for natural gas sales price derivatives and a loss of $92 thousand for interest rate derivatives.

The Company has recognized a realized gain on financial derivatives in the amount of $3.3 million ($2.49 per boe) for the year ended December 31, 2009 as compared to a $3.7 million ($3.39 per boe) realized loss for the prior year comparative period. The realized gain on financial derivatives for the year ended December 31, 2009 amounted to a gain of $1.9 million for crude oil sales price derivatives, a gain of $1.7 million for natural gas sales price derivatives and a loss of $0.3 million for interest rate derivatives.

As at December 31, 2009, the Company has recognized an unrealized financial derivatives liability in the amount of $1.2 million. The Company has recognized an unrealized loss on financial derivatives in the amount of $3.3 million for the year ended December 31, 2009 and a $2.6 million unrealized gain for the prior year comparative period. The following is a summary of derivatives in effect as at December 31, 2009 and their related fair market values (unrealized loss positions):

Crude Oil Sales Price Derivatives

Daily barrel ("bbl") quantity	Remaining term of contract	Fixed price per bbl (WTI)	Fair market value $ 000's
100	January 1 to December 31, 2010	US $75.00	$ (279)
200	January 1 to December 31, 2010	US $77.00	$ (406)
100	January 1 to December 31, 2010	US $78.00	$ (165)
Crude oil fair value position			$ (850)

As at December 31, 2009 the marked-to-market value of the Company's crude oil sales price derivatives was a liability of USD $0.9 million, or a Canadian dollar equivalent of $0.9 million.

The Company has entered into additional crude oil sales prices derivatives subsequent to year end as disclosed further.

Natural Gas Sales Price Derivatives

Daily giga-joule ("GJ") quantity	Remaining term of contract	Fixed price per GJ (AECO Monthly)	Ceiling price per GJ (AECO Monthly)	Fixed price per GJ (AECO Daily)	Fair market value $ 000's
1,000	January 1, 2010 to December 31, 2010		$7.20		$ (70)
3,000	January 1, 2010 to June 30, 2010			$4.75	$ (264)
3,000	January 1, 2010 to March 31, 2010			$4.75	$ (183)
2,000	January 1, 2010 to March 31, 2010			$5.30	$ 11
2,000	January 1, 2010 to December 31, 2010			$5.60	$ 133
2,000	April 1, 2010 to October 31, 2010			$5.65	$ 142
Natural gas fair value position					$ (231)

As at December 31, 2009 the marked-to-market value of the Company's natural gas sales price derivatives was a liability of approximately $0.2 million.

The Company has entered into additional natural gas sales prices derivatives subsequent to year end as disclosed further.

Fixed/Floating Interest Rate Derivatives

In January 2009, the Company entered into two interest rate swap transactions with the Company's bank. The Company has entered into interest rate swap transactions for $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 December 31, 2009 the marked-to-market value of the Company's fixed/floating interest rate derivative contracts was a liability of approximately $0.1 million.

DEPLETION, DEPRECIATION AND ACCRETION EXPENSE

For the three month period ended December 31, 2009, depletion and depreciation of capital assets and the accretion of the asset retirement obligations was $8.7 million or $16.10 per boe compared to $8.2 million or $28.80 per boe for the three month period ended December 31, 2008. For the year ended December 31, 2009, depletion and depreciation of capital assets and the accretion of the asset retirement obligations was $30.4 million or $22.55 per boe compared to $30.7 million or $27.91 per boe for the year ended December 31, 2008. Per unit depletion rates in both the three months and year ended December 31, 2009 compared to the prior year comparative periods have decreased as a result of a decreased cost of proved reserve additions on a per boe basis. Per unit depletion rates have decreased significantly as a result of the corporate acquisitions of Can-Able Energy Ltd. and Buffalo Resources Corp. where production and proved reserves were acquired at metrics lower than Twin Butte's historical cost base on a per boe basis.

INCOME TAXES

Future income tax recovery amounted to $0.5 million for the three month period ended December 31, 2009 compared to a future income tax expense in the amount of $2.9 million for the three month period ended December 31, 2008. Future income tax recovery amounted to $4.8 million for the year ended December 31, 2009 compared to a future income tax expense in the amount of $3.9 million for the year ended December 31, 2008.

The Company has existing tax losses and pools of approximately $295.0 million of which $18.4 million are non-capital losses and the Company has no current tax expense

FUNDS FLOW FROM OPERATIONS, AND NET LOSS AND COMPREHENSIVE LOSS

Funds flow from operations for the three month period ended December 31, 2009 was $7.7 million, an increase of 47% from fourth quarter 2008 cash flow of $5.2 million. This represents a decrease of 33% in funds flow per share basic and diluted to $0.08 per share for fourth quarter 2009 compared to $0.12 per share for fourth quarter 2008. The increase in funds flow is due primarily to the 88% increase in production and associated operating netbacks primarily related to the acquisition of Buffalo Resources early in the fourth quarter of 2009, and offset by a 10% decrease in the average realized sales price for petroleum

and natural gas sales and resulting reduction in operating netbacks, with an average sales price of $42.24 per boe in the fourth quarter of 2009, compared to $47.07 per boe in the third quarter of 2008.

Funds flow from operations for the year ended December 31, 2009 was $17.6 million, a decrease of 43% from the year ended December 31, 2008 cash flow of $31.1 million. This represents a decrease of 62% in funds flow per share basic and diluted to $0.28 per share for the year ended December 31, 2009 compared to $0.74 per share for the prior year comparative period. The decrease in funds flow is consistent with the 42% decrease in the average realized sales price for petroleum and natural gas sales and resulting reduction in operating netbacks, with an average sales price of $36.82 per boe in the year ended December 31, 2009, compared to $64.03 per boe in the prior year comparative period.

The Company posted net loss and comprehensive loss of $961 thousand for the three month period ended December 31, 2009, equating to a basic and diluted net loss per share of $0.01, compared to a net loss and comprehensive loss of $4.0 million for the three month period ended December 31, 2008, equating to a basic and diluted net loss per share of $0.09. The Company posted net loss and comprehensive loss of $12.7 million for the year ended December 31, 2009, equating to a basic and diluted net loss per share of $0.20, compared to net loss and comprehensive loss of $2.6 million for the year ended December 31, 2008, equating to a basic and diluted net loss per share of $0.06.

The net loss and comprehensive loss of $12.7 million for the year ended December 31, 2009 includes non-cash items including depletion, depreciation and accretion expense of $30.4 million, future income tax recovery of $4.8 million, unrealized loss on financial derivatives of $3.3 million, and stock based compensation expense of $1.4 million.

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

($ per boe)	**Q4 2009**	**Q3 2009**	**Q2 2009**	**Q1 2009**	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Petroleum and natural gas sales	**42.24**	**31.99**	**32.07**	**35.58**	47.07	68.69	78.91	60.67
Royalties	**(7.27)**	**(3.55)**	**(0.55)**	**(4.99)**	(8.54)	(12.59)	(11.15)	(10.64)
Realized gain (loss) on financial derivatives	**0.38**	**2.92**	**1.58**	**7.14**	2.43	(3.88)	(9.30)	(2.71)
Operating expenses	**(12.94)**	**(12.99)**	**(13.70)**	**(13.39)**	(13.31)	(11.90)	(13.58)	(11.17)
Transportation expenses	**(1.58)**	**(2.41)**	**(2.32)**	**(2.66)**	(2.47)	(2.45)	(2.88)	(2.83)
Operating netback	**20.83**	**15.96**	**17.08**	**21.68**	**25.18**	**37.87**	**42.00**	**33.32**
General and administrative expenses	**(3.63)**	**(3.42)**	**(5.15)**	**(3.93)**	(4.61)	(2.74)	(3.53)	(4.69)
Interest expense	**(2.52)**	**(1.62)**	**(1.59)**	**(1.40)**	(1.82)	(1.53)	(1.81)	(3.21)
Funds flow from operations	**14.68**	**10.92**	**10.34**	**16.35**	18.75	33.60	36.66	25.42

($ per boe)	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Petroleum and natural gas sales	49.55	42.91	51.38	50.76
Royalties	(9.99)	(9.08)	(10.52)	(9.55)
Realized gain (loss) on financial instruments	(0.84)	3.07	0.93	–
Operating expenses	(12.89)	(11.86)	(10.96)	(11.73)
Transportation expenses	(2.54)	(2.47)	(2.31)	(2.69)
Operating netback	**23.29**	**22.57**	**28.52**	**26.79**
General and administrative expenses	(3.70)	(3.19)	(4.25)	(4.03)
Interest expense	(1.96)	(2.07)	(0.77)	(0.47)
Funds flow from operations	17.63	17.31	23.50	22.29

QUARTERLY FINANCIAL SUMMARY

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

($ thousands, except per share amounts)	**Q4 2009**	**Q3 2009**	**Q2 2009**	**Q1 2009**	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Average production (boe/d)	**5,699**	**2,894**	**2,864**	**2,936**	3,039	3,202	3,051	2,500
Petroleum and natural gas sales	**22,150**	**8,519**	**8,359**	**9,396**	13,158	20,235	21,907	13,800
Operating netback (per boe)	**20.83**	**15.96**	**17.08**	**21.68**	25.18	37.85	42.00	33.32
Funds flow from operations	**7,714**	**2,906**	**2,691**	**4,319**	5,243	9,895	10,178	5,780
Per share basic & diluted	**0.08**	**0.05**	**0.06**	**0.09**	0.12	0.23	0.23	0.16
Net income (loss)	**(961)**	**(3,542)**	**(3,328)**	**(4,858)**	(4,001)	5,909	(1,753)	(2,751)
Per share basic & diluted	**(0.01)**	**(0.06)**	**(0.07)**	**(0.10)**	(0.09)	0.14	(0.04)	(0.07)
Corporate acquisitions	**120,539**	**10,625**	**–**	**–**	–	–	–	57,252
Capital expenditures (net of dispositions)	**(1,437)**	**2,042**	**(9,022)**	**5,412**	9,211	17,623	7,025	8,513
Total assets	**308,864**	**177,407**	**169,448**	**183,687**	190,665	189,613	187,172	186,685
Net debt excluding financial derivatives	**102,911**	**42,114**	**39,889**	**51,390**	50,309	51,073	43,230	46,297

($ thousands, except per share amounts)	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Average production (boe/d)	2,006	2,042	1,445	1,309
Petroleum and natural gas sales	9,146	8,060	6,755	5,981
Operating netback (per boe)	23.29	22.57	28.52	26.79
Funds flow from operations	3,255	3,254	3,091	2,626
Per share basic & diluted	0.12	0.12	0.14	0.13
Net income (loss)	4,272	(4,818)	3,483	(3,915)
Per share basic & diluted	0.15	(0.18)	0.16	(0.19)
Corporate acquisitions	–	–	–	–
Capital expenditures (net of dispositions)	3,671	3,615	31,981	8,391
Total assets	120,151	112,804	116,389	81,899
Net debt excluding financial derivatives	23,242	22,823	38,042	9,001

CORPORATE ACQUISITIONS

On October 14, 2009, the Company closed the acquisition of Buffalo Resources Corp., a publicly traded exploration and production company, for total consideration of approximately $120.5 million including net debt assumed. The purchase was funded through the issuance of 54,355,942 Common Shares of Twin Butte and was accounted for as a business combination using the purchase method of accounting. The Company inherited 11,000,000 pre-existing Buffalo Resources Corp. warrants that are now convertible to 7,700,000 Twin Butte Common Shares at $2.14 per share which expire on May 9, 2011. The acquisition was material as it significantly increased the production base of the Company and expanded the Company's land position, including the addition of a core area focused on heavy oil at Frog Lake.

On July 10, 2009, the Company closed the acquisition of Can-Able Energy Ltd., a private exploration and production company, for total consideration of approximately $10.6 million including net debt assumed. The purchase was funded through the issuance of 8,229,968 Common Shares of Twin Butte and was accounted for as a business combination using the purchase method of accounting. This acquisition complemented Twin Butte's strategy because of the addition of a new core area focusing on liquids rich natural gas in the Deep Basin.

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 15,663,027 million common shares of Twin Butte and was accounted for as a business combination using the purchase method of accounting.

CAPITAL EXPENDITURES

During the fourth quarter of 2009, the Company invested $8.1 million on capital activity, less proceeds of $9.5 million from property dispositions, for net capital activity of $(1.4) million. For the year, the Company invested $16.3 million on capital activity, less proceeds of $19.3 million, for net capital of $(3.0) million. Property dispositions were completed in areas that were assessed as non-core in an effort to focus the Company's capital investment in core growth areas, and to reduce the Company's net debt. Subsequent to the acquisition of Buffalo Resources Corp. on October 14, 2009, the Company expanded its capital program particularly in the newly acquired heavy oil core area of Frog Lake, investing approximately 42% of the Company's 2009 capital program (excluding property dispositions) in the fourth quarter of 2009. The Company drilled a total of 18.0 (11.5 net) wells in 2009, of which 13.0 (6.4 net) were drilled in the fourth quarter.

The following tables summarize capital expenditures, drilling results and undeveloped land positions for 2009 and 2008.

($ 000's)	Three months ended December 31		Twelve months ended December 31	
	2009	2008	**2009**	2008
Land acquisition	**100**	25	**272**	1,539
Geological and geophysical	**1,570**	44	**1,921**	1,067
Drilling and completions	**4,067**	6,425	**7,789**	31,608
Alberta drilling credits	**(200)**	–	**(668)**	–
Equipping and facilities	**2,113**	2,350	**5,786**	6,348
Property Acquisitions	**41**	–	**69**	–
Property dispositions	**(9,499)**	–	**(19,313)**	–
Other	**371**	367	**1,139**	1,810
Total net capital expenditures	**(1,437)**	9,211	**(3,005)**	42,372

Drilling Results

Year ended December 31	**2009**		2008	
	Gross	**Net**	Gross	Net
Crude oil	**11.0**	**6.0**	13.0	12.9
Natural gas	**6.0**	**4.5**	6.0	5.2
Dry and abandoned	**1.0**	**1.0**	2.0	2.0
Total	**18.00**	**11.5**	21.0	20.1
Success rate (%)		**91%**		90%

Three months ended December 31	**2009**		2008	
	Gross	**Net**	Gross	Net
Crude oil	**10.0**	**5.0**	–	–
Natural gas	**3.0**	**1.4**	1.0	0.6
Dry and abandoned	**–**	**–**	–	–
Total	**13.0**	**6.4**	1.0	0.6
Success rate (%)		**100%**		100%

The Company's undeveloped land position was expanded significantly in 2009, primarily as a result of undeveloped land acquired in the corporate acquisitions of Can-Able Energy Ltd. and Buffalo Resources Corp.

Undeveloped Land

Year ended December 31	**2009**	2008
Gross Acres	**371,835**	195,308
Net Acres	**262,634**	153,721

LIQUIDITY AND CAPITAL RESOURCES

The Company evaluates its ability to carry on business as a going concern on a quarterly basis. The key indicator is whether the cash flow after interest and G&A expenses will be sufficient to cover all obligations. In addition, the Company budgets to use cash flow from operating activities to fund the majority of the capital program to sustain or grow production net of declines. Funds derived from cash flow and asset dispositions may be used to apply to the Company's debt facility or fund the capital expenditure program.

In order to support the Company's business plan, Twin Butte's strategy is to fund the majority of its capital expenditure program with cash flow from operations. In order to maintain the Company's net debt at current or lower levels, Twin Butte plans to limit 2010 capital expenditures to approximately cash flow and proceeds from non-core property dispositions, which should continue to provide the Company a significant undrawn portion on the Company's credit facility borrowing.

As at December 31, 2009, the Company had a credit facility with a syndicate of two Canadian chartered banks in the amount of $120.0 million. The credit facility is composed of a $120.0 million demand revolving operating credit facility. The Company's credit facility was amended and renewed October 14, 2009 and is subject to semi-annual review by the bank, with the next semi-annual credit facility review scheduled for April 2010. 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.

The Company's bank indebtedness does not have a specific maturity date as it is a demand facility. This means that the lender has the ability to demand repayment of all outstanding indebtedness or a portion thereof at any time. If that were to occur the Company would be required to source alternate credit facilities or sell assets to repay the indebtedness. The Company reduces this risk by complying with the covenants of the banking syndicate. The covenants require maintaining a current ratio of not less than 1.0:1.0. It is governed by a credit facility agreement with a syndicate of financial institutions (note 4 of the financial statements). Under the terms of the agreement, the facility is reviewed semi-annually, with the next review scheduled in April 2010. The facility is revolving, and is reviewed at each semi-annual review by the syndicate.

On an ongoing basis the Company will review its capital expenditures to ensure that cash flow and or access to credit facilities is available to fund these capital expenditures. The Company has the flexibility to adjust capital expenditures based on cash flow to manage debt levels.

At December 31, 2009, the Company had $96.3 million drawn on its credit facility and total net debt (defined as the sum of working capital deficiency and other liabilities, excluding financial derivative contract assets or liabilities) of $102.9 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 working capital. Subsequent to year end, the Company's net debt was reduced significantly through a combination of an equity financing that closed on February 2, 2010 for gross proceeds of $23.0 million, and additional property dispositions that were completed in the first quarter of 2010 for gross proceeds of $3.6 million.

The Company confirms there are no off balance sheet financing arrangements.

SUBSEQUENT EVENTS

On January 8, 2010 the Company completed a non-core property dispositions for proceeds of $3.6 million.

On February 2, 2010, the Company closed a bought deal equity financing of 18,400,000 Common Shares at a price of $1.25 per share, for gross proceeds of $23.0 million.

Subsequent to December 31, 2009, the Company entered into the following natural gas sales price derivative:

Daily giga-joule ("GJ") quantity	Term of contract	Fixed price per GJ (AECO Monthly)	Fixed call price per GJ (AECO Monthly)
3,000	April 1, 2010 to December 31, 2010	$5.90	
3,000	January 1, 2011 to December 31, 2011		$7.00

Subsequent to December 31, 2009, the Company entered into the following crude oil sales price derivatives:

Daily quantity per barrel ("bbl")	Term of contract	Fixed Price per bbl (WTI)
100	February 1, 2010 to December 31, 2010	US $86.75
100	February 1, 2010 to December 31, 2010	US $86.75

SHARE CAPITAL

As of March 23, 2010 the Company currently has 128,114,335 Common Shares, 11,000,000 warrants and 3,892,000 stock options outstanding.

CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

The issuance of flow through shares in December 2008 for gross proceeds of $5.0 million required 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 December 31, 2009 the Company has fulfilled this commitment.

The Company had other commitments and guarantees in the normal course of business, consisting of an office space lease and equipment rentals which are not considered material and are disclosed in note 11 to the financial statements.

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 in the financial statements.

RELATED PARTY TRANSACTIONS

During the year ended December 31, 2009 the Company incurred costs totaling $37 thousand (December 31, 2008 - $561 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 GAAP 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. As such, the Company will maintain both Canadian GAAP and IFRS compliant financial statements in 2010.

Throughout 2009 the Company 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 has focused on key impact areas including – financial reporting (including internal controls), systems and processes, communication and training. The project is being managed by an in-house team of accounting professionals who have engaged in IFRS education programs and continue to develop the Company's adoption to IFRS. The Company's auditors will be involved throughout the process to ensure the Company's policies are in accordance with these new standards.

Management has not yet finalized its accounting policies and as such is unable to quantify the impact on the financial statements of adopting IFRS. In addition, due to anticipated changes to IFRS and International Accounting Standards prior to Twin Butte's adoption of IFRS, management's plan is subject to change based on new facts and circumstances that arise after the date of the MD&A.

It has been determined that accounting for property and equipment will be impacted by the conversion to IFRS, including accounting for and assessing depletion and impairment.

In July 2009, the International Accounting Standards Board ("IASB") issued an amendment to IFRS 1 "First Time Adoption of International Reporting Standards." The amendment allows full cost accounting entities to elect, at the time of adoption, to measure exploration and evaluation assets at the amount determined under the entity's previous GAAP. The amendment will also permit full cost accounting entities to measure, at the time of adoption, oil and gas assets in the development or production phases, by using the total value determined under the entity's previous GAAP and allocating values at the unit of account level based on the Company's reserve volumes or reserve values as of the date of conversion. This exemption will relieve the Company from retrospective application of IFRS for its oil and gas assets. The Company currently anticipates that this exemption will be used, however, this will not be determined until the impact analysis and evaluation phase of the conversion project is complete.

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.

CRITICAL ACCOUNTING ESTIMATES

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

Full Cost Accounting

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

Asset Retirement Obligations

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

Reserves Determination

The proved crude oil, natural gas and natural gas liquid reserves used in determining our depletion rates, the magnitude of the borrowing base available to us from our lender and the ceiling test are based upon management's best estimates, and are subject to uncertainty. Through the use of geological, geophysical and engineering data, the reservoirs and deposits of natural gas, crude oil and natural gas liquids are examined to determine quantities available for future production, given existing operating and economic conditions and technology. The evaluation of recoverable reserves is an ongoing process impacted by current production, continuing development activities and changing economic conditions as reflected in crude oil and natural gas prices and costs. Consequently, the reserves are estimates which are subject to variability. To assist with the reserve evaluation process, we employ the services of independent oil and gas reservoir engineers.

Stock Based Compensation

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.

Income Taxes

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

Other Estimates

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

Ceiling Test

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

Financial Derivatives

The Company may use derivative financial instruments from time to time to hedge its exposure to commodity prices, foreign exchange and interest rate fluctuations. The mark to market valuations of these contracts are presented in the Company's financial statements. These valuations are based on forward looking estimates including, but not limited to, volatility, interest rates and commodity prices.

ASSESSMENT OF BUSINESS RISKS

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

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

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

Twin Butte seeks to mitigate these risks by:

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

- Establishing and maintaining adequate resources to fund future abandonment and site restoration costs; and
- Monitoring our joint venture partners' obligations to us and cash calling for capital projects to limit the Company's credit risk.

CURRENT ECONOMIC CONDITIONS

Twin Butte continued to have access to debt markets in 2009 in spite of weaker economic conditions and financial market volatility. The Company entered into the $120.0 million demand revolving credit facility in conjunction with the Buffalo acquisition. Subsequent to year end, the Company issued $23.0 million of Common Shares at $1.25 per share. The net proceeds were used to repay a portion of the outstanding bank indebtedness.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Management assessed the design and effectiveness of internal control over financial reporting as at December 31, 2009, and based on that assessment determined that the design and operating effectiveness of internal control over financial reporting was effective.

No changes were made to internal control over financial reporting during the year ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President & Chief Executive Officer ("CEO") and Vice President, Finance and Chief Financial Officer ("CFO"), on a timely basis so that appropriate decisions can be made regarding public disclosure.

Management has evaluated the effectiveness of the design and operation of its disclosure controls and procedures, under the supervision of its CEO and CFO. Based on this evaluation, Management concluded that the disclosure controls and procedures, as defined in National Instrument 52-109, were effective as of December 31, 2009.

ADDITIONAL INFORMATION

Additional information relating to Twin Butte, including Twin Butte's AIF and financial statements (to be filed before March 31, 2010) can be found on SEDAR at www.sedar.com.

Management's Report

To the Shareholders of Twin Butte Energy Ltd.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of Twin Butte Energy Ltd. and all of the information in this Annual Report are the responsibility of management and have been approved by the Board of Directors.

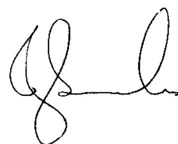
The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, management has chosen those methods it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. The financial information contained elsewhere in this report has been reviewed to ensure consistency with the financial statements.

MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROLS OVER FINANCIAL REPORTING

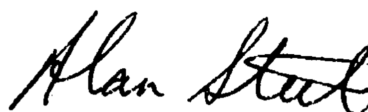
Management is also responsible for establishing and maintaining adequate internal control over the Company's financial reporting. Management has established systems of internal controls, which are designed to provide reasonable assurance the Company's assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information. Internal control systems, no matter how well designed have inherent limitations. Therefore, even those systems that have been determined to be effective can only provide reasonable assurance with respect to financial statement preparation and presentation.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal controls. It exercises its responsibilities primarily through the Audit Committee, which is comprised of independent, non-management directors. The Audit Committee has reviewed the financial statements with both management and the auditors. This has been reported to the Board of Directors which has approved the financial statements.

The financial statements have been audited by PricewaterhouseCoopers LLP, the external auditors, in accordance with auditing standards generally accepted in Canada on behalf of the shareholders.



Jim Saunders
President and Chief Executive Officer



R . Alan Steele
Vice-President, Finance & CFO

March 23, 2010

Auditors' Report

To the Shareholders of Twin Butte Energy Ltd.:

We have audited the balance sheets of Twin Butte Energy Ltd. as at December 31, 2009 and 2008 and the statements of loss, comprehensive loss and deficit and cash flows for each of the years in the two year period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2009 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP
Chartered Accountants
Calgary, Alberta

March 23, 2010

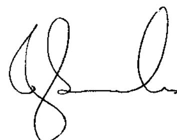
Balance Sheets

	December31 2009	December31 2008
ASSETS		
Current Assets		
Accounts receivable	$ 20,758,953	$ 9,416,746
Deposits and prepaid expenses	3,181,862	1,651,966
Financial derivatives (note 10)	–	2,075,039
	23,940,815	13,143,751
Future income taxes (note 8)	2,402,381	1,324,465
Property and equipment (note 3)	282,520,568	176,197,152
	$ 308,863,764	$ 190,665,368
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	$ 29,713,116	$ 15,745,084
Bank indebtedness (note 4)	96,342,448	45,632,924
Financial derivatives (note 8)	1,224,178	–
	127,279,742	61,378,008
Other liabilities (note 5)	795,871	–
Asset retirement obligation (note 6)	14,855,867	9,158,775
	142,931,480	70,536,783
Shareholders' Equity		
Share capital (note 7)	188,005,760	131,863,112
Warrants (note 7)	912,408	–
Contributed surplus (note 7)	4,184,787	2,747,850
Deficit	(27,170,671)	(14,482,377)
	165,932,284	120,128,585
	$ 308,863,764	$ 190,665,368

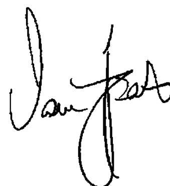
Commitments and contingencies (note 11)

See accompanying notes to financial statements

On Behalf of the Board of Directors:



Jim Saunders
Director



David Fitzpatrick
Director

Statements of Loss, Comprehensive Loss and Deficit

Year Ended December 31	2009	2008
REVENUE		
Petroleum and natural gas sales	**$ 48,425,012**	$ 69,099,751
Royalties	**(6,209,764)**	(11,613,745)
Realized gain (loss) on financial derivatives	**3,271,357**	(3,660,486)
Unrealized gain (loss) on financial derivatives (note 10)	**(3,299,217)**	2,635,277
	42,187,388	56,460,797
EXPENSES		
Operating	**17,350,344**	13,538,560
Transportation	**2,777,148**	2,857,328
General and administrative	**5,193,161**	4,140,549
Stock based compensation	**1,436,938**	1,735,843
Interest	**2,534,883**	2,193,059
Depletion, depreciation and accretion	**30,402,398**	30,739,092
	59,694,872	55,204,431
(Loss) income before income taxes	**(17,507,484)**	1,256,366
Income taxes		
Future tax (recovery) expense (note 8)	**(4,819,190)**	3,851,671
	(4,819,190)	3,851,671
Net loss and comprehensive loss	**(12,688,294)**	(2,595,305)
Deficit, beginning of period	**(14,482,377)**	(11,887,072)
Deficit, end of period	**$ (27,170,671)**	$ (14,482,377)
Basic & diluted loss per share	**$ (0.20)**	$ (0.06)
Weighted average common shares outstanding		
Basic	**62,392,250**	47,128,425
Diluted	**62,392,250**	41,981,359

See accompanying notes to financial statements

Statements of Cash Flows

	Year Ended December 31	
	2009	2008
Cash provided by (used in):		
OPERATIONS		
Net loss	**$ (12,688,294)**	$ (2,595,305)
Items not involving cash:		
Depletion, depreciation and accretion	**30,402,398**	30,739,092
Future tax (recovery) expense	**(4,819,190)**	3,851,671
Unrealized (gain) loss on financial derivatives	**3,299,217**	(2,635,277)
Stock based compensation	**1,436,938**	1,735,843
	17,631,069	31,096,024
Expenditures on asset retirement obligations	**(537,013)**	(88,617)
Changes in non-cash working capital	**(552,716)**	(8,563,180)
	16,541,340	22,444,227
FINANCING		
Change in bank indebtedness	**(18,266,329)**	8,619,341
Issuance of share capital	**–**	5,000,400
Issuance of share capital on exercise of stock options	**–**	26,190
Bank financing and share issue costs	**(95,075)**	(442,425)
	(18,361,404)	13,203,506
INVESTING		
Expenditures on property and equipment	**(16,308,818)**	(42,372,070)
Acquisition expenditures	**(1,064,074)**	(362,668)
Proceeds on disposition of property and equipment	**19,313,422**	–
Changes in non-cash working capital	**(120,466)**	7,087,005
	1,820,064	(35,647,733)
Decrease in cash and cash equivalents	**–**	–
Cash and cash equivalents, beginning of period	**–**	–
Cash and cash equivalents, end of period	**$ –**	$ –
Cash interest paid	**$ 2,440,435**	$ 1,985,434

See accompanying notes to financial statements

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

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

Summary of significant accounting policies:

a) Oil and gas operations

i) Capitalization of costs

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

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

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

ii) Depletion and depreciation

Capitalized costs, excluding costs related to unproven properties and salvage values, plus an estimate of future development costs of proved undeveloped reserves, are depleted and depreciated using the unit-of-production method based on the estimated gross proven oil and natural gas reserves before royalties as determined by independent engineers. Costs of acquiring and evaluating unproved properties are excluded from depletion calculations until it is determined whether or not proved reserves are attributable to the properties or impairment occurs. Oil and natural gas reserves are converted on an energy equivalent basis.

iii) Ceiling test

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

b) Asset retirement obligations

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

c) Joint operations

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

d) Flow-through common shares

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

e) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date. Revenues and or losses on these items are included in the statements of loss.

f) Income taxes

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

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

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

h) Per share information

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

i) Financial instruments

All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial

instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities as defined by the standard.

Financial assets and financial liabilities held-for-trading are measured at fair value with changes in those fair values recognized in net loss immediately. Financial assets available-for-sale are measured at fair value, with changes in those fair values recognized in other comprehensive loss and transferred to earnings when the asset is derecognized. Financial assets held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method of amortization and impairment losses are recognized when incurred.

The Company has no financial instruments or activities that give rise to other comprehensive loss. The Company's cash and cash equivalents are designated as held-for-trading and are measured at carrying value, which approximates fair value due to the short-term nature of these instruments. Accounts receivable are designated as loans and receivables. Accounts payable and accrued liabilities, other liabilities and bank indebtedness are designated as other liabilities. Financial derivatives are designated as held for trading.

j) Financial instrument disclosures

In June 2009, the CICA issued amendments to CICA Handbook Section 3862, Financial Instruments – Disclosures. The amendments include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. The amendments are effective for annual financial statements for fiscal years ending after September 30, 2009 and are consistent with recent amendments to financial instrument disclosure standards in International Financial Reporting Standards ("IFRS"). The adoption of this section required enhanced disclosures in the Company's financial statements.

This section was amended to require disclosures about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

Twin Butte's commodity contracts and interest rate hedging instruments are derivatives and are recorded at fair value using quoted market prices and are classified as level 2 in the fair value hierarchy.

k) Transaction costs

Transaction costs are frequently attributed to the acquisition or issue of a financial asset or liability. Such costs incurred on held for trading financial instruments are expensed immediately. For other financial instruments, an entity can adopt an accounting policy of either expensing transaction costs as they occur or adding such transaction costs to the fair value of the financial instrument. The Company has chosen a policy of adding transaction costs to the fair value initially recognized for financial assets and liabilities that are not classified as held for trading.

l) Comprehensive loss

Comprehensive loss consists of net loss and other comprehensive loss ("OCI") with amounts included in OCI shown net of tax. Accumulated other comprehensive loss is comprised of the cumulative amounts of OCI. To date, the Company does not have any adjustments in OCI and therefore comprehensive loss is currently equal to net loss.

m) Cash and cash equivalents

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

n) Revenue recognition

Revenue associated with the sale of crude oil and natural gas are recognized when title passes to the purchaser, normally at the pipeline delivery point for natural gas and at the wellhead for crude oil.

o) Measurement uncertainty

Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses. The amounts recorded for depletion and depreciation 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. The derivative fair value calculations and fair values assigned to any identifiable assets and liabilities in a business combination are based on fair value assessments and other relevant assumptions. 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.

p) Changes in accounting policies

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.

q) Accounting pronouncements issued and not yet adopted

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 Canadian Institute of Chartered Accountants ("CICA") Handbook sections as of January 1, 2011:

i) 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.

ii) 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.

iii) 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.

NOTE 2. ACQUISITION EXPENDITURES

Can-Able Energy Inc.

On July 10, 2009, the Company purchased all the issued and outstanding shares of Can-Able Energy Inc., a private exploration and production company, for total consideration of $8.1 million, plus assumed bank debt and working capital. The value of the Common Shares issued as consideration was determined based on the weighted average trading value of Twin Butte's Common Shares during the five day period before and after the terms of the acquisition were agreed to and announced. The purchase was paid for through the issuance of 8.2 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	$	8,986,626
Future income tax asset		2,129,021
Net working capital deficiency		(2,548,323)
Asset retirement obligation		(476,624)
Total net assets acquired	$	8,090,700

The net working capital deficiency consists of the following:

		Total
Accounts receivable	$	126,805
Deposits and prepaid expenses		153,083
Accounts payable and accrued liabilities		(330,754)
Bank indebtedness		(2,497,457)
Net working capital deficiency	$	(2,548,323)

Consideration

		Total
Common Shares	$	8,006,113
Transaction costs		84,587
Total purchase price	$	8,090,700

Buffalo Resources Corp.

On October 14, 2009, the Company purchased all the issued and outstanding shares of Buffalo Resources Corp., a publicly traded exploration and production company, for total consideration of $51.5 million, plus assumed bank debt and working capital. In addition, 11,000,000 pre-existing Buffalo Resources Corp. warrants were retained and are convertible to 7,700,000 shares at $2.14 per share which expire on May 9, 2011 (note 7). The value of the Common Shares issued as consideration was determined based on the weighted average trading value of Twin Butte's Common Shares during the five day period before and after the terms of the acquisition were agreed to and announced. The allocation of the purchase price is subject to further refinement as additional cost estimates and tax balances are finalized. The purchase was paid for through the issuance of 54.4 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	$ 132,767,511
Future income tax liability	(4,447,751)
Net working capital deficiency & other liabilities	(68,992,513)
Asset retirement obligation	(7,781,200)
Total net assets acquired	$ 51,546,047

The net working capital deficiency consists of the following:

	Total
Accounts receivable	$ 2,750,523
Deposits and prepaid expenses	1,316,771
Accounts payable and accrued liabilities	(5,785,540)
Bank indebtedness	(66,478,396)
Other liabilities	(795,871)
Net working capital deficiency	$ (68,992,513)

Consideration

	Total
Common Shares	$ 49,654,153
Warrants	912,408
Transaction costs	979,486
Total purchase price	$ 51,546,047

E4 Energy Inc.

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

	Cost	Accumulated Net Depletion & Depreciation	**December 31, 2009 Net Book Value**	December 31, 2008 Net Book Value
Petroleum and natural gas properties	$ 368,368,511	$ 85,919,186	**$ 282,449,325**	$ 176,080,040
Office and computer equipment	218,778	147,535	**71,243**	117,112
Total	$ 368,587,289	$ 86,066,721	**$ 282,520,568**	$ 176,197,152

The Company has capitalized $1,120,325 of general and administrative expenses directly related to exploration and development activities for the year ended December 31, 2009 ($1,726,246 - December 31, 2008).

The cost of undeveloped property excluded from the depletion base as at December 31, 2009 was $26,790,931 ($16,597,792 – December 31, 2008). Future development costs on proved undeveloped reserves of $49,041,400 as at December 31, 2009 are included in the calculation of depletion ($41,683,700 – December 31, 2008).

During the year ended December 31, 2009, Twin Butte completed a sale of a property in North East British Columbia for net proceeds of $9.8 million, the sale of the operating area of Southeast Saskatchewan for net proceeds of $8.1 million, and other non-core properties in Alberta for net proceeds of $1.4 million. The total net proceeds of $19.3 million from the sales were credited against the full cost pool of oil and natural gas properties included in property and equipment on the Company's balance sheet. No gain or loss was recognized on these transactions.

The Company performed a ceiling test calculation as at December 31, 2009 to assess the recoverable value of petroleum and natural gas properties. Future oil and gas prices are based on the January 1, 2010 commodity price forecast of the Company's independent reserve evaluators, adjusted for a variety of factors, such as quality differentials to determine expected realized prices. The Company had no impairment under the December 31, 2009 year end ceiling test.

For calculation of the December 31, 2009 ceiling test, the benchmark prices used were as follows:

	Oil Edmonton Par Price 40 API CAD $/bbl	Natural Gas AECO – C Spot CAD $/MMbtu
2010	83.20	6.05
2011	87.00	6.75
2012	91.00	7.15
2013	95.00	7.45
2014	99.20	7.80
2015	103.50	8.15
2016	105.60	8.40
2017	107.70	8.55
2018	109.80	8.70
2019	112.10	8.90
2020	114.30	9.05
% increase thereafter	2.00%	2.00%

NOTE 4. BANK INDEBTEDNESS

As at December 31, 2009, the Company had a $120.0 million demand revolving credit facility with a syndicate of two Canadian chartered banks. The credit facility provides that advances may be made by way of direct advances, bankers' acceptances, or standby letters of credit/guarantees. 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 demand revolving credit facility contains standard commercial covenants for facilities of this nature. The only financial covenant is a requirement for Twin Butte to maintain a current ratio of not less than 1.0:1.0, and such ratio is to be tested at the end of each fiscal quarter. Current ratio is defined as the ratio of (i) current assets, excluding financial derivatives, plus any undrawn availability under the credit facility to (ii) current liabilities, excluding financial derivatives. The Company is in compliance with all of its credit facility covenants.

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 April 2010.

The Company's effective interest rate for the years ended December 31, 2009 and 2008 was 4.4 percent and 5.0 percent, respectively.

NOTE 5. OTHER LIABILITIES

In October 2009, Twin Butte acquired an office lease which expires in November 2012 in relation to the acquisition of Buffalo Resources Corp. As a result, the Company has recognized the difference between the required future minimum lease payments and the estimated fair market value of the lease payments at the time of acquisition. The fair value difference has been recognized as part of the Buffalo acquisition with a corresponding liability. Fair value was determined on a present value basis, using a credit-adjusted risk free rate of four point five percent.

NOTE 6. 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 $14,855,867 at December 31, 2009, based on a total future liability of $32,779,252. 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 after 2018. A credit-adjusted risk free rate of eight percent and an inflation rate of two percent were used to calculate the present value of the asset retirement obligation.

Changes to the asset retirement obligation are as follows:

	Year ended December 31, 2009	Year Ended December 31, 2008
Asset retirement obligation, beginning of period	**$ 9,158,775**	$ 6,945,541
Liabilities incurred	**239,964**	482,302
Liabilities settled	**(537,013)**	(88,617)
Acquisitions	**8,257,824**	1,913,109
Disposition	**(27,560)**	–
Revisions in estimated cash outflows	**(2,915,432)**	(663,818)
Accretion of asset retirement obligation	**679,309**	570,258
Asset retirement obligation, end of period	**$ 14,855,867**	$ 9,158,775

NOTE 7. SHARE CAPITAL

Authorized

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

Issued

	Number of Shares	Amount
Common Shares		
Balance, December 31, 2007	27,752,398	$ 93,722,668
Shares issued pursuant to acquisition of E4 Energy Inc. (note 2)	15,663,027	36,964,730
Shares issued upon option exercise	9,000	26,190
Issued pursuant to private placement of flow-through shares	3,704,000	5,000,400
Amounts related to exercised options previously recorded as contributed surplus	–	2,984
Tax effect of 2007 flow through share issue	–	(3,540,207)
Financing and share issue costs net of tax	–	(313,653)
Balance, December 31, 2008	47,128,425	$ 131,863,112
Shares issued pursuant to acquisition of Can-Able Energy Ltd. (note 2)	8,229,968	8,006,113
Shares issued pursuant to acquisition of Buffalo Resources Corp. (note 2)	54,355,942	49,654,153
Tax effect of 2008 flow through share issue	–	(1,450,116)
Financing and share issue costs net of tax	–	(67,502)
Balance, December 31, 2009	**109,714,335**	**$ 188,005,760**

Issue of Common Shares

On December 19, 2008 the Company closed a bought deal private placement of 3,704,000 flow-through Common Shares at a price of $1.35 per share, for gross proceeds of $5,000,400 ($4,651,725 net of issue costs). Pursuant to the flow-through share offering, Twin Butte was committed to incur $5,000,400 of qualifying resource expenditures prior to December 31, 2009 (note 11). Twin Butte renounced the qualifying resource expenditures to holders of the flow-through shares effective on or before December 31, 2008. The future income tax effect and reduction to share capital was accounted for in the first quarter of 2009, the date that the Company filed the renouncement documents with tax authorities.

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 55,358,393 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 terminated on October 23, 2009. No Common Shares were repurchased by the Company.

Management of Capital Structure

The Company's objective when managing capital is to maintain a flexible capital structure which will allow it to execute on its capital investment program, which includes investing in oil and gas activities which may or may not be successful. Therefore the Company continually strives to balance the proportion of debt and equity in its capital structure to take into account the level of risk being incurred in its capital expenditures. The Company manages its capital structure and makes adjustments relative to changes in economic conditions and the Company's risk profile. In order to maintain the capital structure, the Company may from time to time issue shares and adjust its capital spending to manage current and projected debt levels. The Company monitors its bank debt level and working capital in order to assess capital and operating efficiency.

In the management of capital, the Company includes share capital and total net debt (defined as the sum of current assets and current liabilities including bank indebtedness and other liabilities less financial derivatives) in the definition of capital. The Company's share capital is not subject to external restrictions; however, its credit facility value is based primarily on its petroleum and natural gas reserves.

The balance of share capital and total net debt as defined above at December 31, 2009 and December 31, 2008 was as follows:

($000's)	**As at December 31, 2009**	As at December 31, 2008
Working capital deficiency	**$ 5,773**	$ 4,676
Bank indebtedness	**$ 96,342**	$ 45,633
Other liabilities	**$ 796**	$ –
Total net debt	**$ 102,911**	$ 50,309
Shareholders' equity	**165,932**	120,129

As at December 31, 2009 the Company had $96.3 million outstanding on its credit facility of $120.0 million, and a working capital deficiency of $5.8 million and other liabilities of $0.8 million, resulting in $102.9 million in net debt.

The Company entered into a $120.0 million demand revolving credit facility on October 14, 2009 in conjunction with the closing of the Buffalo acquisition. The credit facility is subject to a borrowing base review performed on a periodic basis by the banking syndicate, based primarily on reserves and using commodity prices estimated by the lenders, as well as other factors. A decrease to the borrowing base could lead to a reduction in the credit facility which may require repayment to the lenders. The next semi-annual borrowing base review is scheduled for April 2010.

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

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

Management's objectives, policies and processes regarding capital structure have remained unchanged during the year ended December 31, 2009.

Warrants

The Company has outstanding 11,000,000 warrants from the acquisition of Buffalo Resources Corp. (note 2) that are convertible to 7,700,000 Common Shares at a price of $2.14. The warrants expire on May 9, 2011.

The fair value of each warrant was estimated at the date of the acquisition using the Black-Scholes option pricing model with assumptions and resulting values for each warrant as follows:

Expected volatility	70%
Risk free rate of return	2.0%
Expected warrant life	1.7 years
Dividend yield rate	0.0%
Weighted average fair value of each warrant	$ 0.12

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 December 31, 2009 there were 10,971,433 (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 December 31, 2009:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2007	1,805,000	$ 3.15
Granted	4,296,000	2.33
Exercised	(9,000)	2.91
Cancelled	(1,396,000)	3.68
Forfeited	(1,238,000)	2.84
Outstanding at December 31, 2008	3,458,000	$ 2.21
Granted	3,222,500	0.78
Cancelled	(1,612,000)	2.69
Forfeited	(1,048,500)	1.95
Outstanding at December 31, 2009	**4,020,000**	**$ 0.94**

There were 411,667 options exercisable as at December 31, 2009 (94,000 – December 31, 2008) at an average exercise price of $1.24 per share ($2.50 – December 31, 2008).

	Options Outstanding					
	December 31, 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**	**4.31**	–	–	–
$0.95 – 1.24	**2,217,000**	**1.01**	**4.39**	1,112,000	1.02	4.90
$2.45 – 3.65	**173,000**	**2.67**	**3.25**	2,346,000	2.78	4.24
	4,020,000	**0.94**	**4.31**	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.

	Year ended December 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	**379,498**	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	**$ 4,184,787**	$ 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:

	Options Granted in Year 2009	Options Granted in Year 2008
Expected volatility	**70%**	50%
Risk free rate of return	**2.0%**	4.5%
Expected stock option life	**3years**	3years
Dividend yield rate	**0.0%**	0.0%
Weighted average fair value of stock option grants	**$ 0.30**	$ 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 December 31		Year ended December 31	
	2009	**2008**	2009	2008
Weighted average number of basic shares	**100,261,128**	**43,947,816**	62,392,250	41,883,092
Effect of dilutive securities:				
Employee stock options	**–**	**743**	–	98,267
Weighted average number of diluted shares	**100,261,128**	**43,948,559**	62,392,250	41,981,359

All of the issued stock options were excluded from the calculation of diluted weighted average shares outstanding for the year ended December 31, 2009 as to include them would be anti-dilutive.

NOTE 8. INCOME TAX

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

	2009	2008
Income (Loss) before taxes	**$ (17,507,484)**	$ 1,256,366
Statutory income tax rate	**29.0%**	29.5%
Expected income taxes	**(5,077,170)**	370,628
Stock based compensation	**416,712**	512,074
Change in expected tax rate	**(86,998)**	524,886
Expiry of non-capital losses	**–**	2,171,325
Other	**(71,734)**	272,758
Future income tax (recovery) expense	**$ (4,819,190)**	$ 3,851,671

Future Income Taxes

	2009	2008
Property, plant, and equipment	**$ (6,468,184)**	$ (7,322,900)
Asset retirement obligations	**3,714,000**	2,289,700
Share issue cost	**889,400**	698,500
Eligible scientific research & experimental development expenditures	**3,625,300**	3,625,300
Non-capital loss carryforwards	**5,425,500**	6,817,500
Valuation allowance	**(4,783,635)**	(4,783,635)
Future income tax asset	**$ 2,402,381**	$ 1,324,465

As at December 31, 2009, the Company has tax deductions of approximately $295.0 million that are available to shelter future taxable income. Included in the above is $18.4 million in non-capital losses that expire in 2023.

NOTE 9. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2009, the Company incurred costs totaling $37 thousand ($561 thousand – December 31, 2008) for oilfield services rendered by a company 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 December 31, 2009, the Company had $nil included in accounts payable and accrued liabilities related to these transactions.

NOTE 10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial assets and liabilities are comprised of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, other 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, and other 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 December 31, 2009		As at December 31, 2008	
($000's)	**Carrying Amount**	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
Financial Assets				
Risk management assets	**$ –**	**$ –**	$ 2,075	$ 2,075
Accounts receivable	**20,759**	**20,759**	9,417	9,417
Financial Liabilities				
Risk management liabilities	**$ 1,224**	**$ 1,224**	$ –	$ –
Accounts payable and accrued liabilities	**29,713**	**29,713**	15,745	15,745
Bank indebtedness	**96,342**	**96,242**	45,633	45,633
Other liabilities	**796**	**796**	–	–

Risk Management Assets and Liabilities

Net Risk Management Position

($000's)	**December 31, 2009**	December 31, 2008
Risk Management		
Current asset	**$ –**	$ 2,075
Current liability	**(1,224)**	–
Net Risk Management Asset (Liability)	**$ (1,224)**	$ 2,075

Summary of Unrealized Risk Management Positions

	As at December 31, 2009			As at December 31, 2008		
($000's)	**Asset**	**Liability**	**Net**	Asset	Liability	Net
Commodity Prices						
Natural gas	**$ –**	**$ (231)**	**$ (231)**	$ –	$ –	$ –
Crude oil	**–**	**(850)**	**(850)**	2,075	–	2,075
Interest Rate						
Interest rate	**–**	**(143)**	**(143)**	–	–	–
Total Fair Value	**$ –**	**$ (1,224)**	**$ (1,224)**	$ 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 December 31, 2009

Crude Oil Sales Price Derivatives

Daily barrel ("bbl") quantity	Remaining term of contract	Fixed price per bbl (WTI)	Fair market value $ 000's
100	January 1 to December 31, 2010	US$ 75.00	$ (279)
200	January 1 to December 31, 2010	US$ 77.00	$ (406)
100	January 1 to December 31, 2010	US$ 78.00	$ (165)
Crude oil fair value position			$ (850)

As at December 31, 2009 the marked-to-market value of the Company's crude oil sales price derivative was a liability of USD $0.9 million, or a Canadian dollar equivalent of $0.9 million.

Natural Gas Sales Price Derivatives

Daily giga-joule ("GJ") quantity	Remaining term of contract	Fixed price per GJ (AECO Daily)	Fair market value $ 000's
1,000	January 1, 2010 to December 31, 2010	$ 7.20	$ (70)
3,000	January 1, 2010 to June 30, 2010	$ 4.75	$ (264)
3,000	January 1, 2010 to March 31, 2010	$ 4.75	$ (183)
2,000	January 1, 2010 to March 31, 2010	$ 5.30	$ 11
2,000	January 1, 2010 to December 31, 2010	$ 5.60	$ 133
2,000	April 1, 2010 to October 31, 2010	$ 5.65	$ 142
Natural gas fair value position			$ (231)

As at December 31, 2009 the marked-to-market value of the Company's natural gas sales price derivative contracts was a liability of approximately $0.2 million.

Fixed/Floating Interest Rate Derivatives

In January 2009, the Company entered into two interest rate swap transactions with the Company's bank. The Company has entered into interest rate swap transactions for $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 December 31, 2009 the marked-to-market value of the Company's fixed/floating interest rate derivative contracts was a liability of $0.1 million.

Reconciliation of Unrealized Risk Management Positions from January 1 to December 31

	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	(6,570)	(6,570)
Fair value of contracts realized during the period	3,271	3,271
Fair value of contracts, end of period	$ (1,224)	$ (3,299)

Risks Associated with Financial Assets and Liabilities

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

Market Risk

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

- *Commodity Price Risk*

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

- *Interest Rate Risk*

  The Company is exposed to interest rate risk to the extent that changes in market interest rates will impact any bank indebtedness that has a floating interest rate, potentially affecting future cash flows. As a means to mitigating exposure to interest rate risk, the Company has entered into interest rate swap agreements.

- *Foreign Exchange Risk*

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

The Company uses a non-GAAP measure, cash flow from operations, as a measure of current operating efficiency. Cash flow from operations represents cash flow from operating activities prior to changes in non-cash working capital and expenditures on asset retirement obligations. For the year ended December 31, 2009, the sensitivity of cash flow from operations to changes in Twin Butte's realized crude oil and NGL prices, natural gas prices, and bank interest rate would have been as follows: an increase of $1.00 per bbl in the realized price for crude oil and NGL would have resulted in approximately $355 thousand additional cash flow from operations. An increase by $0.10 per thousand cubic feet in the realized price for natural gas would have resulted in approximately $457 thousand additional cash flow from operations. An increase by 1.0% to the bank interest rate would have resulted in approximately $55 thousand less cash flow from operations. However, the above sensitivity results for crude oil, NGL and for natural gas should not be extrapolated further without considering Twin Butte's hedge portfolio, royalty parameters and potential price-related effects on the results of the period. A decrease in the U.S./Canadian dollar exchange ratio of $0.01 would reduce the Canadian dollars paid or received from the U.S. dollar denominated oil sales price derivatives for 2010 by $30,700 per 100 bbl per day.

Credit Risk

Credit risk arises from the potential loss resulting from a counterparty failing to meet its obligations in accordance with the agreed terms. Substantially all of the accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. The Company generally extends unsecured credit to

these customers and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by entering into transactions with long-standing, reputable, counterparties and partners. Wherever possible, the Company requires cash calls from its partners on capital projects before they commence. Receivables related to the sale of the Company's petroleum and natural gas production are mainly from major marketing companies who have very good credit ratings. These revenues are normally collected on the 25th day of the month following delivery. The carrying value of accounts receivable reflects management's assessment of the associated credit risks.

As at December 31, 2009, $0.6 million or 3.0% of accounts receivable are outstanding for 90 days or more (December 31, 2008 - $0.5 million or 5.0% of accounts receivable). The Company believes that the entire balance is collectible, and in some instances we have the ability to mitigate risk through withholding production or offsetting payables with the same parties. Management has provided for an allowance for doubtful accounts of $0.4 million at December 31, 2009 (December 31, 2008 - $nil).

As at December 31, 2009, the counter-party with which the Company maintains a risk management contract (hedge) is a major Canadian chartered bank, which has an investment grade rating.

Liquidity Risk

Liquidity risk is the risk the Company will encounter difficulties in meeting its financial liability obligations. The Company manages its liquidity risk through cash and debt management. As disclosed in note 7, a key measure that the Company utilizes in evaluating its capital structure and debt are total debt to cash flow from operating activities (before changes in non-cash working capital and expenditures on asset retirement obligations) and the current cash flow and credit available from its creditors in relation to the Company's budgeted capital program. Both of these ratios are in an acceptable range for the Company at year end.

In managing liquidity risk, the Company has access to funding at competitive rates through its banking credit facility. As at December 31, 2009, the Company had available undrawn bank credit facilities from the demand revolving operating credit facility in the amount of $23.6 million. The Company believes it has sufficient funding through the use of this credit facility to meet foreseeable borrowing requirements. The banking credit facility is expected to be renewed by April 30, 2010 and the Company will manage its capital spending to stay within its expected and revised borrowing base limits for 2010.

As at December 31, 2009 the timing of cash outflows relating to financial liabilities are outlined in the table below:

($000's)		Less than 1 year	Greater than 1 year
Accounts payable and accrued liabilities and other liabilities	$	29,713	796
Financial derivatives		1,224	–

The Company's bank indebtedness does not have a specific maturity date as it is a demand facility. This means that the lender has the ability to demand repayment of all outstanding indebtedness or a portion thereof at any time. If that were to occur the Company would be required to source alternate credit facilities or sell assets to repay the indebtedness. The Company reduces this risk by complying with the covenants of the banking syndicate. The covenants require maintaining a current ratio of not less than 1.0:1.0. It is governed by a credit facility agreement with a syndicate of financial institutions (note 4). Under the terms of the agreement, the facility is reviewed semi-annually, with the next review scheduled in April 2010. The facility is revolving, and is reviewed at each semi-annual review by the syndicate.

On an ongoing basis the Company will review its capital expenditures to ensure that cash flow and or access to credit facilities is available to fund these capital expenditures. The Company has the flexibility to adjust capital expenditures based on cash flow to manage debt levels.

NOTE 11. COMMITMENTS AND CONTINGENCIES

The Company is committed to future minimum payments for natural gas transmission and processing, operating leases on compression equipment and future premiums on financial derivatives.

The Company was 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 December 31, 2009 the Company had fulfilled this commitment.

As at December 31, 2009, the Company had contractual obligations and commitments for base office rent and equipment as follows:

2010	$ 1,518,888
2011	1,161,387
2012	763,517
2013	–
2014	–

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 12. SUBSEQUENT EVENTS

Property Disposition

On January 8, 2010, the Company completed a non-core property disposition for gross proceeds of $3.6 million.

Bought Deal Equity Financing

On February 2, 2010, the Company closed a bought deal equity financing of 18,400,000 Common Shares at a price of $1.25 per share, for gross proceeds of $23.0 million.

Natural Gas Sales Price Derivative

Subsequent to December 31, 2009, the Company entered into the following natural gas sales price derivative contract:

Daily giga-joule ("GJ") quantity	Term of contract	Fixed price per GJ (AECO Monthly)	Fixed call price per GJ (AECO Monthly)
3,000	April 1, 2010 to December 31, 2010	$5.90	
3,000	January 1, 2011 to December 31, 2011		$7.00

Crude Oil Sales Price Derivative Contracts

Subsequent to December 31, 2009, the Company entered into the following crude oil sales price derivatives:

Daily barrel ("bbl") quantity	Term of contract	Fixed Price per bbl (WTI)
100	February 1, 2010 to December 31, 2010	US $86.75
100	February 1, 2010 to December 31, 2010	US $86.75

Corporate Information

OFFICERS

Jim Saunders
President and Chief Executive Officer

Thomas Badura
Vice President, Operations

Neil Cathcart
Vice President, Exploration

Mike Fabi
Vice President, Engineering

Bruce W. 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]

Jim Saunders

Murray Sinclair [3]

Warren Steckley [1] [2]

William A. (Bill) Tricket [2]

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

HEAD OFFICE

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Fax: 403-215-2055
www.twinbutteenergy.com

AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants, Calgary, AB

BANKERS

National Bank of Canada, Calgary, AB

ATB Financial, Calgary AB

SOLICITORS

Burnet, Duckworth & Palmer LLP,
Calgary, AB

ENGINEERS

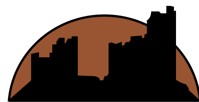
McDaniel & Associates Consultants Ltd. Calgary, AB

REGISTRAR & TRANSFER AGENT

Valiant Trust Company
Calgary, AB

STOCK EXCHANGE LISTING

TSX
Trading Symbol "TBE"



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