Q1 2010

Twin Butte Energy Ltd.

FOR THE THREE MONTHS ENDED MARCH 31, 2010

## Highlights

Twin Butte Energy Ltd. ("Twin Butte" or the "Company") (TSX: TBE) is pleased to announce its financial and operational results for the three month period ended March 31, 2010.

| | Three months ended March 31 | | |
|---|---|---|---|
| | **2010** | 2009 | % Change |
| **FINANCIAL** *($ thousands, except per share amounts)* | | | |
| Petroleum and natural gas sales | **25,503** | 9,396 | 171% |
| Funds flow [(1)] | **9,726** | 4,319 | 125% |
| Per share basic & diluted | **0.08** | 0.09 | (11%) |
| Net income (loss) | **3,077** | (4,858) | – |
| Per share basic & diluted | **0.03** | (0.10) | – |
| Capital expenditures | **11,352** | 5,412 | 110% |
| Capital dispositions | **(5,719)** | – | – |
| Corporate acquisitions | **–** | – | – |
| Net debt [(2)] | **77,212** | 51,390 | 50% |
| **OPERATING** | | | |
| Average daily production | | | |
| Crude oil (bbl per day) | **2,075** | 688 | 202% |
| Natural gas (Mcf per day) | **22,670** | 12,664 | 79% |
| Natural gas liquids (bbl per day) | **287** | 137 | 109% |
| Barrels of oil equivalent (boe per day, 6:1) | **6,140** | 2,936 | 109% |
| Average sales price | | | |
| Crude oil ($ per bbl) | **68.58** | 46.35 | 48% |
| Natural gas ($ per Mcf) | **5.33** | 5.28 | 1% |
| Natural gas liquids ($ per bbl) | **70.11** | 41.40 | 69% |
| Barrels of oil equivalent ($ per boe, 6:1) | **46.14** | 35.58 | 30% |
| Operating netback ($ per boe) | | | |
| Petroleum and natural gas sales | **46.14** | 35.58 | 30% |
| Realized gain on financial derivatives | **0.48** | 7.14 | (93%) |
| Royalties | **(9.51)** | (4.99) | 91% |
| Operating expenses | **(13.47)** | (13.39) | 1% |
| Transportation expenses | **(1.77)** | (2.66) | (33%) |
| Operating netback [(3)] | **21.87** | 21.68 | 1% |
| Wells drilled | | | |
| Gross | **25.0** | 3.0 | 733% |
| Net | **14.5** | 3.0 | 383% |
| Success (%) | **100%** | 100% | – |
| **COMMON SHARES** | | | |
| Shares outstanding, end of period | **128,114,335** | 47,128,425 | 172% |
| Weighted average shares outstanding – diluted | **122,800,508** | 47,128,425 | 161% |

(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 gain on financial derivatives, royalties, operating and transportation expenses.

# Report to Shareholders

## *Momentum is growing for Twin Butte, both operationally and financially*

### CORPORATE

Balance sheet enhancement has been a key priority for Twin Butte post the Buffalo transaction in October 2009. In February we completed the issuance of 18.4 million shares for gross proceeds of $23.0 million. Proceeds of the financing as well as six non-core asset dispositions over the past two quarters has significantly strengthened the Company's balance sheet with net debt at the end of the first quarter of $77.2 million versus a recently renewed credit facility of $120.0 million.

Twin Butte's methodical program of disposing of non-core assets has proved very successful. Four transactions were completed in Q4 2009 for net proceeds of $9.8 million before adjustments. Two dispositions valued at $6.0 million before adjustments were completed in the first quarter of 2010 and an additional three dispositions valued at $1.7 million are anticipated to be closed in the second quarter. The Company has been able to realize excellent value ($48,700 per boe per day) from its asset sales in an extremely competitive disposition market.

Ongoing non-core asset dispositions will further focus the Company's operations and generate cash to supplement and enhance the planned capital program in our core growth areas.

### OPERATIONS

Corporate production averaged 6,140 boe per day in the first quarter of 2010 up from the Q4 2009 average of 5,699 boe per day. Current production has grown to 6,500 boe per day even though approximately 325 boe per day was sold in the last two quarters, including the disposition of 140 boe per day in the first quarter of 2010.

In the first quarter Twin Butte executed a successful capital program of $11.4 million which included the drilling of 25 gross (14.5 net) wells at a 100 percent success rate and the completion of an extensive 3D seismic survey at Frog Lake. Based on this success the Company now anticipates spending a minimum of $44 million ($38 million net of dispositions) in 2010, financed entirely from cash flow. With over 90 percent of the capital plan focused on oil based activities, oil production weighting will grow to 50 percent by the end of the year. With continued success in our disposition program, proceeds will be recycled into an enhanced capital program with a focus on oil projects.

Twin Butte is in an enviable position of having a significant inventory of both oil and gas drilling locations (300 net oil and 280 net gas) allowing us to prioritize capital to maximize return and minimize payout times. Although the capital plan is primarily oil based, capital will be spent to de-risk three different scalable gas plays in the Eastern Plains and the Deep Basin of Alberta. This de-risking will ensure the Company's significant resource style gas growth opportunities are ready to be executed upon when gas pricing improves.

At Frog Lake in the Eastern Plains of Alberta, the Company completed a 23 gross (12.5 net) oil well drilling program in the first quarter and to date in the second quarter an additional 6 gross wells have been drilled with a 100 percent success rate. Production from Frog Lake has increased appreciably since the Company acquired the property late in 2009 and the Company anticipates this profitable production growth to continue throughout 2010. Our extensive drilling program since October 2009 and the results of a recent 15 square km 3D seismic survey has significantly enhanced our estimate of original oil in place on our lands as well as our drilling inventory. We currently estimate over 500 million barrels of oil in place, up from earlier estimates of 350 million barrels. With only 2 percent of this oil expected to be recovered from existing wells the Company can foresee drilling an additional 500 plus wells to increase oil recoveries to approximately 7.5 percent. Even this recovery factor is low based on analog accumulations suggesting opportunities for further drilling, recompletion, or enhanced recovery techniques. Significant upside potential remains at Frog Lake for years to come.

Over the remainder of 2010 we anticipate drilling an additional 60 (30 net) wells at Frog Lake. A second 3D seismic survey covering the remainder of Twin Butte's lands is planned for late third quarter. This survey will not only fine tune our extensive development drilling inventory but will define potential on our undrilled exploratory acreage. With current netbacks exceeding $35 per bbl the Company is generating recycle ratios in excess of 4 times and payouts of less than 10 months.

At Bruce in the Eastern Plains, two 100 percent interest horizontal wells were drilled in the first quarter. The first delineation well to a Q4 2009 oil discovery has been producing over 100 boe per day for the past month. Two additional delineation wells will be drilled in the second quarter. Based on 3D seismic coverage the opportunity exists for an additional 10 wells on the play.

The second horizontal well targeted gas in the Viking formation and was completed with 8 multistage fracs. Early production testing remains positive and the Company anticipates an additional de-risking well will be drilled later in 2010. The Company has amassed a significant land position of over forty five, 100 percent working 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 a minimum of two horizontal wells in the third quarter, targeting liquids rich Cardium and Notikewin gas. These wells will de-risk the plays which have already been successfully developed by offset competitors. Each of these plays could lead to scalable multi-well programs when gas prices improve.

## OUTLOOK

Our organic exploration and development program is working. We have established a number of scalable play types in core areas that can make a meaningful difference to future corporate growth. This growth will continue through 2010 with our first quarter's results being only an early indication of the growth potential of our established drilling inventory. We now anticipate exiting 2010 at 7,200 boe per day, an increase from earlier estimates of 6,800 boe per day.

Our new strategy and corporate direction was set in 2009. We have been and will remain disciplined in pursuing this strategy. We have done what we said we would do. This has led to a financially stronger company that is now demonstrating its growth potential. Our strategy is working and will continue to unfold in 2010.

Twin Butte is a value oriented junior 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 in 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 Chief Executive Officer

May 11, 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 and ability to access sufficient capital from internal and external sources. 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 May 11, 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.

**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. Particularly, statements regarding our future operating results and economic performance are forward-looking statements. In some cases, forward-looking information can be identified by terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or other similar expressions concerning matters that are not historical facts.

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

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

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

## PETROLEUM AND NATURAL GAS SALES

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

| | Three months ended March 31 | |
|---|---|---|
| | **2010** | 2009 |
| **Average Twin Butte Realized Commodity Prices** (1) | | |
| Crude oil ($ per bbl) | **68.58** | 46.35 |
| Natural gas ($ per Mcf) | **5.33** | 5.28 |
| Natural gas liquids ($ per bbl) | **70.11** | 41.40 |
| Barrels of oil equivalent ($ per boe, 6:1) | **46.14** | 35.58 |
| (1) The average selling prices reported are before realized financial instrument gains/losses and transportation charges. | | |
| **Benchmark Pricing** | | |
| WTI crude oil (US$ per bbl) | **78.71** | 42.98 |
| WTI crude oil (Cdn$ per bbl) | **81.86** | 53.73 |
| AECO natural gas (Cdn$ per Mcf) (2) | **4.95** | 4.95 |
| Exchange rate – Cdn$/US$ | **1.04** | 1.25 |
| (2) The AECO natural gas price reported is the average daily spot price. | | |
| **Revenue** | | |
| $000's | | |
| Crude oil | **12,808** | 2,868 |
| Natural gas | **10,882** | 6,019 |
| Natural gas liquids | **1,813** | 509 |
| Total petroleum and natural gas sales | **25,503** | 9,396 |
| **Average Daily Production** | | |
| Crude oil & natural gas liquids (bbl/day) | **2,362** | 825 |
| Natural gas (Mcf/day) | **22,670** | 12,664 |
| Total (boe/d) | **6,140** | 2,936 |
| % natural gas production | **62%** | 72% |

Revenues for the three months ended March 31, 2010 were $25.5 million, as compared to $9.4 million for the three months ended March 31, 2009 representing an increase of $16.1 million or 171%. This increase in revenue is attributed primarily to an increase of 109% in average quarterly production from 2,936 boe/d in the first quarter of 2009 to 6,140 boe/d in the first quarter of 2010, in addition to a quarter over quarter increase of 30% in the average realized commodity price from $35.58 per boe in 2009 to $46.14 per boe in 2010.

The significant average daily production increase of 109% quarter over quarter relates primarily to production acquired in the acquisition of Can-Able Energy Inc. in the third quarter of 2009 and the acquisition of Buffalo Resources Corp. in the fourth quarter of 2009, along with an increase in drilling and completions in the fourth quarter of 2009 and the first quarter of 2010. This increase is after selling non-core properties producing approximately 185 boe/d late in the fourth quarter of 2009 and an additional 140 boe/d in the first quarter of 2010.

The Company's weighting to natural gas for the first quarter of 2010 was 62% compared to a weighting of 72% for the first quarter of 2009. The Company's weighting to natural gas has decreased in the first quarter of 2010 as a result of production acquired in the fourth quarter of 2009 with the acquisition of Buffalo Resources Corp. whose weighting to natural gas was approximately 60%. In addition, the Company's drilling and completion activity in the fourth quarter of 2009 and the first quarter of 2010 was almost exclusively focused on oil. 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 March 31, 2010 were $5.3 million, as compared to $1.3 million for the three months ended March 31, 2009. As a percentage of revenues, the average royalty rate for the first quarter of 2010 was 21% compared to 14% for the comparative period of 2009. The Company's effective royalty rate in the 2010 period compared to the 2009 comparative period is higher, primarily as a result of higher commodity pricing in 2010, and royalty credits received in the first quarter of 2009 that skewed the first quarter 2009 royalty rate lower. In addition, the Company's production weighting towards oil has increased resulting in a higher royalty rate paid on higher priced oil production.

The Company is budgeting the average royalty rate in 2010 to be comparable to the first quarter of 2010.

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 has 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 $7.4 million or $13.47 per boe for the quarter ended March 31, 2010 as compared to $3.5 million or $13.39 per boe for the three months ended March 31, 2009. The most significant reason for the increase in operating expenses on a per boe basis is the acquisition of Buffalo Resources Corp. in October 2009 which had a higher per boe operating expense.

The Company is continuing to focus on operating efficiencies and is looking at ways to lower operating costs further in 2010 as we work through the new properties.

## TRANSPORTATION EXPENSES

Transportation expenses for the three months ended March 31, 2010 were $1.0 million or $1.77 per boe compared to $0.7 million or $2.66 per boe in the prior year comparative quarter. The Company is budgeting transportation expenses on a per boe basis to be consistent with the first quarter 2010 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 March 31 | |
|---|---|---|
| *$ 000's* | **2010** | 2009 |
| G&A expenses | **2,371** | 1,413 |
| Recoveries | **(415)** | (51) |
| Capitalized G&A expenses | **(452)** | (324) |
| Total net G&A expenses | **1,504** | 1,038 |
| Total net G&A expenses ($/boe) | **$2.72** | $3.93 |

General and administrative expenses, net of recoveries and capitalized G&A, were $1.5 million or $2.72 per boe for the current quarter as compared to $1.0 million or $3.93 per boe in the prior year comparative quarter. The increase in gross general and admnistrative expenses reflects the growth in the Company's size over the past year. General and administrative expenses on a per boe basis is budgeted to range from $2.50 per boe to $2.75 per boe in 2010 as a result of the completed integration with Buffalo Resources Corp. and resulting reduction in transitional staffing costs, along with increased production volumes.

## STOCK BASED COMPENSATION EXPENSE

During the three month period ended March 31, 2010, the Company expensed $0.1 million in stock based compensation as compared to $1.0 million in the three month period ended March 31, 2009. Stock based compensation expense in the current quarter is significantly lower than the prior year comparative quarter. The Company granted 85,000 stock options in the first quarter of 2010 as compared to 952,500 stock option grants in the first quarter of 2009. Additionally, the first quarter of 2009 included a one time charge for stock based compensation expense recorded on the remaining unrecognized fair value of outstanding stock options that were cancelled in that period.

## INTEREST EXPENSE

For the three months ended March 31, 2010, interest expense was $0.9 million, an increase of $0.5 million from the prior year comparative period interest expense of $0.4 million. Higher interest costs in the 2010 period compared to the 2009 period are due primarily to higher debt levels as compared to the prior year comparative periods, resulting primarily from an increased bank borrowing balance after the acquisition of Buffalo Resources Corp.

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%.

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

During 2009 and 2010, 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 $0.3 million ($0.48 per boe) for the three month period ended March 31, 2010 as compared to a $1.9 million ($7.14 per boe) realized gain for the prior year comparative period. The realized gain on financial derivatives for the three month period ended March 31, 2010 amounted to a gain of $406 thousand for natural gas sales price derivatives, a loss of $76 thousand for crude oil sales price derivatives and a loss of $65 thousand for interest rate derivatives.

As at March 31, 2010, the Company has recognized a net unrealized financial derivatives asset in the amount of $2.8 million. The Company has recognized an unrealized gain on financial derivatives in the amount of $4.1 million for the three month period ended March 31, 2010 as compared to a $1.9 million unrealized loss for the prior year comparative period. The following is a summary of derivatives in effect as at March 31, 2010 and their related fair market values (unrealized gain (loss) positions):

### Crude Oil Sales Price Derivatives

| Daily barrel ("bbl") quantity | Remaining term of contract | Fixed price per bbl (CAD) | Fixed price per bbl (WTI) | Fair market value $ 000's |
|---|---|---|---|---|
| 100 | April 1 to December 31, 2010 | | US $75.00 | $ (278) |
| 200 | April 1 to December 31, 2010 | | US $77.00 | $ (444) |
| 100 | April 1 to December 31, 2010 | | US $78.00 | $ (193) |
| 200 | April 1 to December 31, 2010 | CAD $ 86.75 | | $ 16 |
| Crude oil fair value position | | | | $ (899) |

As at March 31, 2010 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 Monthly) | Fixed call price per GJ (AECO Monthly) | Ceiling price per GJ (AECO Monthly) | Fixed price per GJ (AECO Daily) | Fair market value $ 000's |
|---|---|---|---|---|---|---|
| 3,000 | April 1 to June 30, 2010 | | | | $4.75 | $ 349 |
| 1,000 | April 1 to December 31, 2010 | | | $7.20 | | $ (3) |
| 2,000 | April 1 to December 31, 2010 | | | | $5.60 | $ 1,021 |
| 2,000 | April 1 to October 31, 2010 | | | | $5.65 | $ 880 |
| 3,000 | April 1 to December 31, 2010 | $5.90 | | | | $ 1,709 |
| 3,000 | January 1, 2011 to December 31, 2011 | | $7.00 | | | $ (123) |
| Crude oil fair value position | | | | | | $ 3,833 |

As at March 31, 2010 the marked-to-market value of the Company's natural gas sales price derivative contracts was an asset of approximately $3.8 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 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 March 31, 2010 the marked-to-market value of the Company's fixed/floating interest rate derivative contract was a liability of approximately $0.1 million.

## DEPLETION, DEPRECIATION AND ACCRETION EXPENSE

For the three month period ended March 31, 2010, depletion and depreciation of capital assets and the accretion of the asset retirement obligations was $9.4 million or $16.59 per boe compared to $7.9 million or $29.38 per boe for the three month period ended March 31, 2009. Per unit depletion rates in the three months ended March 31, 2010 compared to the prior year comparative period has decreased significantly 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. in the third quarter of 2009 and Buffalo Resources Corp. in the fourth quarter of 2009, 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 expense amounted to $1.2 million for the three month period ended March 31, 2010 compared to a future income tax recovery in the amount of $1.7 million for the three month period ended March 31, 2009. The Company has existing tax losses and pools of approximately $286.5 million.

## FUNDS FLOW FROM OPERATIONS, AND NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

Funds flow from operations for the three month period ended March 31, 2010 was $9.7 million, an increase of 125% from first quarter 2009 cash flow of $4.3 million. The increase in funds flow is due primarily to the 109% increase in production and associated operating netbacks. This represents a decrease of 11% in funds flow per share basic and diluted to $0.08 per share for first quarter 2010 compared to $0.09 per share for first quarter 2009.

The Company posted net income and comprehensive income of $3.1 million for the three month period ended March 31, 2010, equating to a basic and diluted net income per share of $0.03, compared to a net loss and comprehensive loss of $4.9 million for the three month period ended March 31, 2009, equating to a basic and diluted net loss per share of $0.10.

The net income and comprehensive income of $3.1 million for the three month period ended March 31, 2010 includes non-cash items including depletion, depreciation and accretion expense of $9.4 million, future income tax expense of $1.2 million, unrealized gain on financial derivatives of $4.1 million, and stock based compensation expense of $0.1 million.

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

| *($ per boe)* | **Q1 2010** | Q4 2009 | Q3 2009 | Q2 2009 | Q1 2009 | Q4 2008 | Q3 2008 | Q2 2008 | Q1 2008 |
|---|---|---|---|---|---|---|---|---|---|
| Petroleum and natural gas sales | **46.14** | 42.24 | 31.99 | 32.07 | 35.58 | 47.07 | 68.69 | 78.91 | 60.67 |
| Royalties | **(9.51)** | (7.27) | (3.55) | (0.55) | (4.99) | (8.54) | (12.59) | (11.15) | (10.64) |
| Realized gain (loss) on financial derivatives | **0.48** | 0.38 | 2.92 | 1.58 | 7.14 | 2.43 | (3.88) | (9.30) | (2.71) |
| Operating expenses | **(13.47)** | (12.94) | (12.99) | (13.70) | (13.39) | (13.31) | (11.90) | (13.58) | (11.17) |
| Transportation expenses | **(1.77)** | (1.58) | (2.41) | (2.32) | (2.66) | (2.47) | (2.45) | (2.88) | (2.83) |
| **Operating netback** | **21.87** | **20.83** | **15.96** | **17.08** | **21.68** | **25.18** | **37.87** | **42.00** | **33.32** |
| General and administrative expenses | **(2.72)** | (3.63) | (3.42) | (5.15) | (3.93) | (4.61) | (2.74) | (3.53) | (4.69) |
| Interest expense | **(1.56)** | (2.52) | (1.62) | (1.59) | (1.40) | (1.82) | (1.53) | (1.81) | (3.21) |
| Funds flow from operations | **17.59** | 14.68 | 10.92 | 10.34 | 16.35 | 18.75 | 33.60 | 36.66 | 25.42 |

## QUARTERLY FINANCIAL SUMMARY

The following table highlights Twin Butte's performance for each of the past nine quarters:

| *($ thousands, except per share amounts)* | **Q1 2010** | Q4 2009 | Q3 2009 | Q2 2009 | Q1 2009 |
|---|---|---|---|---|---|
| Average production (boe/d) | **6,140** | 5,699 | 2,894 | 2,864 | 2,936 |
| Petroleum and natural gas sales | **25,503** | 22,150 | 8,519 | 8,359 | 9,396 |
| Operating netback (per boe) | **21.87** | 20.83 | 15.96 | 17.08 | 21.68 |
| Funds flow from operations | **9,726** | 7,714 | 2,906 | 2,691 | 4,319 |
| Per share basic & diluted | **0.08** | 0.08 | 0.05 | 0.06 | 0.09 |
| Net income (loss) | **3,077** | (961) | (3,542) | (3,328) | (4,858) |
| Per share basic & diluted | **0.03** | (0.01) | (0.06) | (0.07) | (0.10) |
| Corporate acquisitions | **–** | 120,539 | 10,625 | – | – |
| Capital expenditures (net of dispositions) | **5,633** | (1,437) | 2,042 | (9,022) | 5,412 |
| Total assets | **302,632** | 308,640 | 177,407 | 169,448 | 183,687 |
| Net debt excluding financial derivatives | **77,212** | 102,911 | 42,114 | 39,889 | 51,390 |

| *($ thousands, except per share amounts)* | Q4 2008 | Q3 2008 | Q2 2008 | Q1 2008 |
|---|---|---|---|---|
| Average production (boe/d) | 3,039 | 3,202 | 3,051 | 2,500 |
| Petroleum and natural gas sales | 13,158 | 20,235 | 21,907 | 13,800 |
| Operating netback (per boe) | 25.18 | 37.85 | 42.00 | 33.32 |
| Funds flow from operations | 5,243 | 9,895 | 10,178 | 5,780 |
| Per share basic & diluted | 0.12 | 0.23 | 0.23 | 0.16 |
| Net income (loss) | (4,001) | 5,909 | (1,753) | (2,751) |
| Per share basic & diluted | (0.09) | 0.14 | (0.04) | (0.07) |
| Corporate acquisitions | – | – | – | 57,252 |
| Capital expenditures (net of dispositions) | 9,211 | 17,623 | 7,025 | 8,513 |
| Total assets | 190,665 | 189,613 | 187,172 | 186,685 |
| Net debt excluding financial derivatives | 50,309 | 51,073 | 43,230 | 46,297 |

## 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 convertible to 7,700,000 Twin Butte Common Shares at $2.14 per share and 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.

## CAPITAL EXPENDITURES

During the first quarter of 2010, the Company invested $11.4 million on capital activity, less proceeds of $5.7 million from property dispositions, for net capital activity of $5.6 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. The Company's capital expenditures for the first quarter were focused predominantly in the recently acquired heavy oil core area of Frog Lake, drilling 23.0 (12.5 net) wells in that area of the 25.0 (14.5 net) total wells drilled in the first quarter. In addition, the Company drilled a horizontal gas and horizontal oil well at Bruce in the first quarter, with production from those wells being added early in the second quarter. The Company drilled a total of 25.0 (14.5 net) wells in the first quarter, of which 93% (net) were oil wells.

The following tables summarize capital expenditures, drilling results and undeveloped land positions for 2010 and 2009.

| *($ 000's)* | Three months ended December 31 | |
|---|---|---|
| | **2010** | 2009 |
| Land acquisition | **99** | 39 |
| Geological and geophysical | **697** | 216 |
| Drilling and completions | **7,523** | 2,290 |
| Alberta drilling credits | **(400)** | – |
| Equipping and facilities | **2,980** | 2,537 |
| Property Acquisitions | **6** | – |
| Property dispositions | **(5,719)** | – |
| Other | **447** | 330 |
| Total net capital expenditures | **5,633** | 5,412 |

### Drilling Results

| Three months ended March 31 | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Gross** | **Net** | Gross | Net |
| Crude oil | **24.0** | **13.5** | – | – |
| Natural gas | **1.0** | **1.0** | 3.0 | 3.0 |
| Dry and abandoned | **–** | **–** | – | – |
| Total | **25.0** | **14.5** | 3.0 | 3.0 |
| Success rate (%) | | **100%** | | 100% |

### Undeveloped Land

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

| Three months ended March 31 | **2010** | 2009 |
|---|---|---|
| Gross Acres | **346,292** | 190,495 |
| Net Acres | **254,612** | 149,098 |

## 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 March 31, 2010, the Company had a credit facility with a syndicate of two Canadian chartered banks in the amount of $120.0 million which was renewed in April subsequent to quarter end. The credit facility is composed of a $120.0 million demand revolving operating credit facility. The Company's credit facility is subject to semi-annual review by the bank, with the next semi-annual credit facility review scheduled for October 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 and maintaining an undrawn balance on the facility. 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. Under the terms of the agreement, the facility is reviewed semi-annually, with the next review scheduled in October 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 March 31, 2010, the Company had $65.6 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 $77.2 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.

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

## SHARE CAPITAL

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 preceeds of $23,000,000 ($21,593,767 net of issue costs). As of May 11, 2010 the Company has 128,151,002 Common Shares, 11,000,000 warrants convertible to 7,700,000 Common Shares, and 6,430,833 stock options outstanding.

## CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

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.

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 three month period ended March 31, 2010 the Company incurred costs totaling $379 thousand (December 31, 2009 – $37 thousand) for 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.

## NEWLY ADOPTED ACCOUNTING POLICIES

On January 1, 2010, Twin Butte adopted the following Canadian Institute of Chartered Accountants ("CICA") Handbook sections:

**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 this standard will impact the accounting for business combinations entered into after January 1, 2010.

**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. The adoption of this standard has impacted 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. The adoption of this standard has not impacted Twin Butte's financial statements.

### 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 and the first quarter of 2010, the Company has been 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.

## ADDITIONAL INFORMATION

Additional information relating to Twin Butte, including Twin Butte's financial statements can be found on SEDAR at www.sedar.com or the Company's website at www.twinbutteenergy.com.

# Balance Sheets

| (unaudited) | March 31 2010 | December 31 2009 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Accounts receivable | **$ 14,918,008** | $ 20,758,953 |
| Deposits and prepaid expenses | **3,096,002** | 3,181,862 |
| Financial derivatives (note 8) | **3,833,448** | – |
| | **21,847,458** | 23,940,815 |
| Future income taxes | **1,548,565** | 2,402,381 |
| Property and equipment (note 3) | **279,235,917** | 282,520,568 |
| | **$ 302,631,940** | $ 308,863,764 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued liabilities | **$ 28,926,350** | $ 29,713,116 |
| Bank indebtedness (note 4) | **65,604,212** | 96,342,448 |
| Financial derivatives (note 8) | **987,200** | 1,224,178 |
| | **95,517,762** | 127,279,742 |
| Other liabilities | **695,799** | 795,871 |
| Asset retirement obligation (note 5) | **15,346,481** | 14,855,867 |
| | **111,560,042** | 142,931,480 |
| **Shareholders' Equity** | | |
| Share capital (note 6) | **209,993,272** | 188,005,760 |
| Warrants (note 6) | **912,408** | 912,408 |
| Contributed surplus (note 6) | **4,259,886** | 4,184,787 |
| Deficit | **(24,093,668)** | (27,170,671) |
| | **191,071,898** | 165,932,284 |
| | **$ 302,631,940** | $ 308,863,764 |

Commitments and contingencies (note 9)

*See accompanying notes to financial statements*

# Statements of Income (Loss), Comprehensive Income (Loss) and Deficit

| (unaudited) | Three Months Ended March 31 | |
|---|---|---|
| | **2010** | 2009 |
| **REVENUE** | | |
| Petroleum and natural gas sales | **$ 25,503,261** | $ 9,396,353 |
| Royalties | **(5,254,405)** | (1,317,331) |
| Realized gain on financial derivatives | **265,446** | 1,885,842 |
| Unrealized gain (loss) on financial derivatives (note 8) | **4,070,426** | (1,943,620) |
| | **24,584,728** | 8,021,244 |
| **EXPENSES** | | |
| Operating | **7,443,719** | 3,535,917 |
| Transportation | **976,057** | 701,945 |
| General and administrative | **1,504,440** | 1,038,136 |
| Stock based compensation | **75,099** | 970,518 |
| Interest | **864,422** | 369,622 |
| Depletion, depreciation and accretion | **9,396,427** | 7,927,341 |
| | **20,260,164** | 14,543,479 |
| Income (loss) before income taxes | **4,324,564** | (6,522,235) |
| Income taxes | | |
| Future tax expense (recovery) | **1,247,561** | (1,664,462) |
| | **1,247,561** | (1,664,462) |
| Net income (loss) and comprehensive income (loss) | **3,077,003** | (4,857,773) |
| Deficit, beginning of period | **(27,170,671)** | (14,482,377) |
| Deficit, end of period | **$ (24,093,668)** | $ (19,340,150) |
| Basic & diluted (loss) income per share | **$ 0.03** | $ (0.10) |
| Weighted average common shares outstanding | | |
| Basic | **121,572,113** | 47,128,425 |
| Diluted | **122,800,508** | 47,128,425 |

*See accompanying notes to financial statements*

## Statements of Cash Flows

| (unaudited) | Three Months Ended March 31 | |
|---|---|---|
| | **2010** | 2009 |
| Cash provided by (used in): | | |
| **OPERATIONS** | | |
| Net income (loss) | **$ 3,077,003** | $ (4,857,773) |
| Items not involving cash: | | |
| Depletion, depreciation and accretion | **9,396,427** | 7,927,341 |
| Future tax expense (recovery) | **1,247,561** | (1,664,462) |
| Unrealized (gain) loss on financial derivatives | **(4,070,426)** | 1,943,620 |
| Stock based compensation | **75,099** | 970,518 |
| | **9,725,664** | 4,319,244 |
| Expenditures on asset retirement obligations | **(2,113)** | 16,768 |
| Changes in non-cash working capital | **(1,738,375)** | 1,894,522 |
| | **7,985,176** | 6,230,534 |
| **FINANCING** | | |
| Change in bank indebtedness | **(30,738,236)** | 3,626,125 |
| Issuance of share capital | **23,000,000** | – |
| Bank financing and share issue costs | **(1,406,233)** | (4,325) |
| | **(9,144,469)** | 3,621,800 |
| **INVESTING** | | |
| Expenditures on property and equipment | **(11,352,431)** | (5,412,344) |
| Proceeds on disposition of property and equipment | **5,718,568** | – |
| Changes in non-cash working capital | **6,793,156** | (4,439,990) |
| | **1,159,293** | (9,852,334) |
| Decrease in cash and cash equivalents | **–** | – |
| Cash and cash equivalents, beginning of period | **–** | – |
| Cash and cash equivalents, end of period | **$ –** | $ – |
| Cash interest paid | **$ 951,727** | $ 353,018 |

*See accompanying notes to financial statements*

The interim financial statements of Twin Butte Energy Ltd. ("Twin Butte" or the "Company") have been prepared by management in accordance with accounting principles generally accepted in Canada. The interim financial statements have been prepared following the same accounting policies and methods of computation as the audited financial statements for the year ended December 31, 2009 except as noted below. The disclosures provided below are incremental to those included in the audited annual financial statements. These interim financial statements should be read in conjunction with the financial statements and notes thereto in the Company's audited annual financial statements.

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

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

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 in the notes to the financial statements for the year ended December 31, 2009.

### Newly Adopted Accounting Policies and Recent Accounting Pronouncements

On January 1, 2010, Twin Butte adopted the following Canadian Institute of Chartered Accountants ("CICA") Handbook sections:

*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 this standard will impact the accounting for business combinations entered into after January 1, 2010.

*ii)* Consolidated Financial Statements, Section 1601, which together with Section 1602 below, replaces the former consolidated financial statements standard. Section 1601 establishes the requirements for the preparation of consolidated financial statements. The adoption of this standard has not had 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. The adoption of this standard has not had 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 6). 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 |

## NOTE 3. PROPERTY AND EQUIPMENT

| | | | March 31, 2010 | December 31, 2009 |
|---|---|---|---|---|
| | Cost | Accumulated Depletion & Depreciation | **Net Book Value** | Net Book Value |
| Petroleum and natural gas properties | $ 374,272,421 | $ 95,086,096 | **$ 279,186,325** | $ 282,449,325 |
| Office and computer equipment | 214,178 | 164,586 | **49,592** | 71,243 |
| Total | $ 374,486,599 | $ 95,250,682 | **$ 279,235,917** | $ 282,520,568 |

The Company has capitalized $451,738 of general and administrative expenses directly related to exploration and development activities for the three month period ended March 31, 2010 ($1,120,325 – December 31, 2009).

The cost of undeveloped property excluded from the depletion base as at March 31, 2010 was $26,738,361 ($26,790,931 – December 31, 2009). Future development costs on proved undeveloped reserves of $46,910,100 as at March 31, 2010 are included in the calculation of depletion ($49,041,400 – December 31, 2009).

During the three month period ended March 31, 2010, Twin Butte completed the sale of a combination of non-core properties in Alberta for net proceeds of $5.7 million. The total net proceeds of $5.7 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.

## NOTE 4. BANK INDEBTEDNESS

As at March 31, 2010, 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 credit facility was reviewed subsequent to quarter end in April 2010. The Company's next semi-annual credit facility review is scheduled for October 2010.

## NOTE 5. ASSET RETIREMENT OBLIGATION

Asset retirement obligations are based on the Company's net ownership in wells and facilities, and management's estimate of future costs to abandon and reclaim those wells and facilities as well as an estimate of the future timing of the costs to be incurred.

The Company has estimated the present value of its total asset retirement obligation to be $15,346,481 at March 31, 2010, based on a total future liability of $32,377,332. Payments to settle asset retirement obligations occur over the operating lives of the underlying assets, estimated to be from 2 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:

| | **Three months ended March 31, 2010** | Year Ended December 31, 2009 |
|---|---|---|
| Asset retirement obligation, beginning of period | **$ 14,855,867** | $ 9,158,775 |
| Liabilities incurred | **314,816** | 239,964 |
| Liabilities settled | **(2,113)** | (537,013) |
| Acquisitions | **–** | 8,257,824 |
| Disposition | **(279,648)** | (27,560) |
| Revisions in estimated cash outflows | **245,093** | (2,915,432) |
| Accretion of asset retirement obligation | **212,466** | 679,309 |
| Asset retirement obligation, end of period | **$ 15,346,481** | $ 14,855,867 |

## NOTE 6. SHARE CAPITAL

### Authorized

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

### Issued

| | Number of Shares | Amount |
|---|---|---|
| Common Shares | | |
| Balance, December 31, 2009 | 109,714,335 | $ 188,005,760 |
| Shares issued pursuant to bought deal equity financing | 18,400,000 | 23,000,000 |
| Share issue costs net of tax | – | (1,012,488) |
| **Balance, March 31, 2010** | **128,114,335** | **$ 209,993,272** |

### Issue of Common Shares

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 $23,000,000 ($21,593,767 net of issue costs).

### 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 March 31, 2010 there were 12,811,433 (10,971,433 – December 31, 2009) Common Shares reserved for issuance under the plan. All options awarded have a maximum term of five years and vest in equal one-third increments on each anniversary of the grant.

The following table sets forth a reconciliation of stock option plan activity through to March 31, 2010:

| | Number of Options | Weighted Average Exercise Price |
|---|---|---|
| Outstanding at December 31, 2009 | 4,020,000 | $ 0.94 |
| Granted | 85,000 | 1.11 |
| Forfeited | (223,000) | 1.82 |
| **Outstanding at March 31, 2010** | **3,882,000** | **$ 0.90** |

There were 575,667 options exercisable as at March 31, 2010 (411,667 – December 31, 2009) at an average exercise price of $0.94 per share ($1.24 – December 31, 2009).

| | Options Outstanding | | | | | |
|---|---|---|---|---|---|---|
| | **March 31, 2010** | | | December 31, 2009 | | |
| 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 | **1,530,000** | **0.66** | **4.05** | 1,630,000 | 0.66 | 4.31 |
| $0.93 – 1.24 | **2,302,000** | **1.02** | **4.16** | 2,217,000 | 1.01 | 4.39 |
| $2.45 – 3.65 | **50,000** | **2.45** | **2.93** | 173,000 | 2.67 | 3.25 |
| | **3,882,000** | **0.90** | **4.10** | 4,020,000 | 0.94 | 4.31 |

### Stock Based Compensation

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

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

| | **Three months ended March 31, 2010** | Year Ended December 31, 2009 |
|---|---|---|
| Contributed surplus balance, beginning of period | **$ 4,184,787** | $ 2,747,850 |
| Stock based compensation for stock options granted | **110,482** | 379,498 |
| Stock based compensation for stock options cancelled | **–** | 1,218,307 |
| Stock based compensation for stock options forfeited | **(35,383)** | (160,868) |
| Stock based compensation for stock options exercised | **–** | – |
| Contributed surplus balance, end of period | **$ 4,259,886** | $ 4,184,787 |

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 Three Months Ended March 31,2010** | Options Granted in Year 2009 |
|---|---|---|
| Expected volatility | **70%** | 70% |
| Risk free rate of return | **2.0%** | 2.0% |
| Expected stock option life | **3 years** | 3 years |
| Dividend yield rate | **0.0%** | 0.0% |
| Weighted average fair value of stock option grants | **$0.53** | $0.30 |

### Income (Loss) Per Share

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

| | Three months ended March 31 | |
|---|---|---|
| | **2010** | 2009 |
| Weighted average number of basic shares | **121,572,113** | 47,128,425 |
| Effect of dilutive securities: | | |
| Employee stock options | **1,228,395** | – |
| Weighted average number of diluted shares | **122,800,508** | 47,128,425 |

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

## NOTE 7. RELATED PARTY TRANSACTIONS

During the three month period ended March 31, 2010, the Company incurred costs totaling $379 thousand ($37 thousand – December 31, 2009) 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 March 31, 2010, the Company had $398 included in accounts payable and accrued liabilities related to these transactions.

## NOTE 8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial assets and liabilities are comprised of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, 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 March 31, 2010 | | As at December 31, 2009 | |
|---|---|---|---|---|
| $ 000's | **Carrying Amount** | **Estimated Fair Value** | Carrying Amount | Estimated Fair Value |
| Financial Assets | | | | |
| Risk management assets | **$ 3,833** | **$ 3,833** | $ – | $ – |
| Accounts receivable | **14,918** | **14,918** | 20,759 | 20,759 |
| Financial Liabilities | | | | |
| Risk management liabilities | **$ 987** | **$ 987** | $ 1,224 | $ 1,224 |
| Accounts payable and accrued liabilities | **28,926** | **28,926** | 29,713 | 29,713 |
| Bank indebtedness | **65,604** | **65,604** | 96,342 | 96,342 |
| Other liabilities | **696** | **696** | 796 | 796 |

## Risk Management Assets and Liabilities

*Net Risk Management Position*

| *$ 000's* | **March 31, 2010** | December 31, 2009 |
|---|---|---|
| Risk Management | | |
| Current asset | **$ 3,833** | $ – |
| Current liability | **(987)** | (1,224) |
| Net Risk Management Asset (Liability) | **$ 2,846** | $ (1,224) |

*Summary of Unrealized Risk Management Positions*

| | As at March 31, 2010 | | | As at December 31, 2009 | | |
|---|---|---|---|---|---|---|
| *$ 000's* | **Asset** | **Liability** | **Net** | Asset | Liability | Net |
| Commodity Prices | | | | | | |
| Natural gas | **$ 3,833** | **$ –** | **$ 3,833** | $ – | $ (231) | $ (231) |
| Crude oil | **–** | **(899)** | **(899)** | – | (850) | (850) |
| Interest Rate | | | | | | |
| Interest rate | **–** | **(88)** | **(88)** | – | (143) | (143) |
| Total Fair Value | **$ 3,833** | **$ (987)** | **$ 2,846** | $ – | $ (1,224) | $ (1,224) |

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

## Net Fair Value of Commodity Price Positions at March 31, 2010

*Crude Oil Sales Price Derivatives*

| Daily barrel ("bbl") quantity | Remaining term of contract | Fixed price per bbl (CAD) | Fixed price per bbl (WTI) | Fair market value $ 000's |
|---|---|---|---|---|
| 100 | April 1 to December 31, 2010 | | US $75.00 | $ (278) |
| 200 | April 1 to December 31, 2010 | | US $77.00 | $ (444) |
| 100 | April 1 to December 31, 2010 | | US $78.00 | $ (193) |
| 200 | April 1 to December 31, 2010 | CAD $86.75 | | $ 16 |
| Crude oil fair value position | | | | $ (899) |

As at March 31, 2010 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 Monthly) | Fixed call price per GJ (AECO Monthly) | Ceiling price per GJ (AECO Monthly) | Fixed price per GJ (AECO Daily) | Fair market value $ 000's |
|---|---|---|---|---|---|---|
| 3,000 | April 1 to June 30, 2010 | | | | $4.75 | $ 349 |
| 1,000 | April 1 to December 31, 2010 | | | $7.20 | | $ (3) |
| 2,000 | April 1 to December 31, 2010 | | | | $5.60 | $ 1,021 |
| 2,000 | April 1 to October 31, 2010 | | | | $5.65 | $ 880 |
| 3,000 | April 1 to December 31, 2010 | $5.90 | | | | $ 1,709 |
| 3,000 | January 1, 2011 to December 31, 2011 | | $7.00 | | | $ (123) |
| Crude oil fair value position | | | | | | $ 3,833 |

As at March 31, 2010 the marked-to-market value of the Company's natural gas sales price derivative contracts was an asset of approximately $3.8 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 March 31, 2010 the marked-to-market value of the Company's fixed/floating interest rate derivative contract was a liability of $0.1 million.

### Reconciliation of Unrealized Risk Management Positions from January 1 to March 31

| | 2010 | |
|---|---|---|
| *$ 000's* | Fair Market Value | Total Unrealized Gain (Loss) |
| Fair value of contracts, beginning of period | $ (1,224) | $ – |
| Change in fair value of contracts in place at beginning of period | 3,805 | 3,805 |
| Fair value of contracts realized during the period | 265 | 265 |
| Fair value of contracts, end of period | $ 2,846 | $ 4,070 |

## NOTE 9. COMMITMENTS AND CONTINGENCIES

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.

# 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 (1) (3)
*Chairman of the Board*

Jim Brown (1) (2)

Jim Saunders

A. Murray Sinclair (3)

Warren Steckley (1) (2) (3)

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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## 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"

Twin Butte Energy Ltd.