

2010

ANNUAL REPORT



Twin Butte Energy Ltd.

HIGHLIGHTS

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

	Three months ended December 31			Twelve months ended December 31		
	2010	2009	% Change	2010	2009	% Change
FINANCIAL (\$ thousands, except per share amounts)						
Petroleum and natural gas sales	29,111	22,150	31%	101,876	48,425	110%
Funds flow ⁽¹⁾	12,887	7,714	67%	40,941	17,631	132%
Per share basic & diluted	0.10	0.08	26%	0.32	0.28	16%
Net loss	(1,351)	(961)	41%	(1,148)	(12,688)	-91%
Per share basic & diluted	(0.01)	(0.01)	5%	(0.01)	(0.20)	100%
Capital expenditures	13,930	8,061	73%	46,913	16,309	188%
Capital dispositions	(1,590)	(9,499)	-83%	(12,272)	(19,313)	-36%
Corporate and asset acquisitions	20,109	120,539	-83%	20,525	131,178	-84%
Net debt ⁽²⁾	96,026	102,911	-7%	96,026	102,911	-7%
OPERATING						
Average daily production						
Crude oil (bbl per day)	3,338	1,810	84%	2,623	971	170%
Natural gas (Mcf per day)	21,085	21,664	-3%	22,033	14,743	49%
Natural gas liquids (bbl per day)	310	279	11%	276	176	57%
Barrels of oil equivalent (boe per day, 6:1)	7,161	5,699	26%	6,571	3,604	82%
Average sales price						
Crude oil (\$ per bbl)	64.49	66.22	-3%	63.56	62.42	2%
Natural gas (\$ per Mcf)	3.83	4.78	-20%	4.27	4.26	0%
Natural gas liquids (\$ per bbl)	66.10	62.07	6%	66.35	52.54	26%
Barrels of oil equivalent (\$ per boe, 6:1)	44.18	42.24	5%	42.48	36.82	15%
Operating netback (\$ per boe) ⁽³⁾						
Petroleum and natural gas sales	44.18	42.24	5%	42.48	36.82	15%
Realized gain on financial derivatives	2.51	0.38	561%	2.22	2.49	-11%
Royalties	(8.47)	(7.27)	17%	(8.65)	(4.73)	83%
Operating expenses	(13.79)	(12.94)	7%	(13.64)	(13.19)	3%
Transportation expenses	(1.65)	(1.58)	4%	(1.60)	(2.11)	-24%
Operating netback	22.78	20.83	9%	20.81	19.28	8%
Wells drilled						
Gross	28.0	13.0	115%	88.0	18.0	389%
Net	15.1	6.4	136%	51.1	11.5	344%
Success (%)	100	100	0%	98	91	8%
COMMON SHARES						
Shares outstanding, end of period	128,197,668	109,714,335	17%	128,197,668	109,714,335	17%
Weighted average shares outstanding – diluted	128,185,784	100,261,128	28%	126,546,454	62,392,250	103%

(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

Highlights of Twin Butte's highly successful 2010 year are as follows:

- > Increased annual corporate production by 82 percent from 2009 to average 6,571 boe per day in 2010. Q4 2010 production averaged 7,161 boe per day a 26 percent increase from Q4 2009 after selling approximately 485 boe per day.
- > Executed an exploration and development capital program of \$46.9 million which included the drilling of 88 gross (51.1 net) wells at a 98 percent success rate.
- > Increased total proved plus probable oil and gas reserves by 23 percent or 6.9 million barrels of oil equivalent ("boe") to 37.5 million boe, replacing corporate 2010 production 3.9 times. At December 31, 2010, 51 percent of the Twin Butte's reserves were either oil or ngl's and over 50 percent of total reserves were producing.
- > Generated superior finding and development ("F&D") costs of \$9.87 per boe as well as finding, development and acquisition ("FD&A") costs of \$10.48 per boe on a proved plus probable basis including change in future development costs ("FDC").
- > Generated a capital recycle ratio of 2.5 times on proved plus probable FD&A including FDC.
- > Maintained a reserve life index of 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 \$3.56 based on PV 10 (\$3.42 fully diluted).
- > Completed a strategic Frog Lake oil acquisition on non-reserve lands valued at \$20 million which further enhanced the Company's oil exposure, drilling inventory and overall asset quality.
- > Completed fourteen non-core asset dispositions valued at \$12.3 million to enhance balance sheet strength and flexibility and further focus the Company's asset base. An additional two dispositions valued at \$11.5 million are anticipated to be closed in Q1. Net debt at the end of 2010 was \$96 million which will be reduced to approximately \$83 million by the end of Q1 2011.

CORPORATE

As highlighted by the Company's year end financial and operating results, 2010 was another year of positive growth and transition. Over the past two years the Team at Twin Butte has successfully transitioned the company from a conventional junior gas producer to a liquid weighted producer with a multiyear, low risk oil drilling inventory, ensuring reserve and production growth for years.

Year to date, the Company's operational momentum continues with 24 net oil wells already drilled. In addition the Company's balance sheet remains solid. In January the Company closed the sale of a noncore asset for \$10.4 million and a second asset sale valued at \$1.1 million is anticipated to close by the end of Q1. To date in 2011 approximately \$7.0 million of proceeds has been realized from the exercise of existing warrants. The original 7.7 million warrants which expire in early May of 2011 have an exercise price of \$2.14. Beyond what has already been exercised remaining potential net proceeds of \$9.0 million are anticipated before May.

The Company is pleased to announce that Mr. John Brussa has joined the Board of Directors complementing the strength of the Company's current independent Directors. Mr. Brussa is a senior partner of Burnet, Duckworth & Palmer LLP, specializing in taxation, and sits on a number of energy and energy related boards, most notably as Chairman of Penn West Exploration and Crew Energy.

OPERATIONS

During 2010 Twin Butte drilled 88 gross (51.1 net) wells with a 98 percent success rate leading to significant production and reserve growth and demonstrating the repeatable potential of the Company's drilling inventory.

Activity levels remain brisk in our core growth areas of Frog Lake and Princess. The Company anticipates spending approximately \$18 million in these areas in Q1. With significant snow cover in most of our operating areas it is anticipated that breakup conditions in Q2 may be more prolonged, therefore some Q2 capital is being accelerated into Q1. Liquid production continues to grow and liquid weighting is now anticipated to be close to 70 percent by the end of the year. Twin Butte is in an enviable position in that it has a current inventory of over 350 net oil drilling locations allowing prioritized capital spending to maximize return and minimize payout times.

At Frog Lake in the Eastern Plains of Alberta the Company drilled 78 gross (41 net) wells in 2010 at a 100 percent success rate. To date in Q1 an additional 32 gross (21 net) wells have been drilled including the Company's first horizontal well in the area. 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 for a number of years based on our current sizable drilling inventory of over 545 gross (320 net) locations. Over the remainder of 2011 we anticipate drilling an additional 109 (71.5 net) wells at Frog Lake. This figure could grow with early success from our horizontal well program. 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 900 million barrels of oil in place and a low recovery factor to date of less than two percent, significant recoverable reserve upside potential remains at Frog Lake. Twin Butte is committed to evaluating and testing various methodologies to ensure maximum reserve recovery is ultimately realized at Frog Lake.

At Princess in South Eastern Alberta the Company recently announced an agreement with a senior oil and gas producer whereby Twin Butte can earn up to 30 sections of land prospective for Pekisko oil. The lands are directly adjacent to Twin Butte's current Princess operations where Twin Butte drilled its first Pekisko horizontal oil well in the third quarter of 2010. The well is currently producing in excess of 220 bbls of oil per day after being on-stream for nearly six months. In Q1 the Company drilled an offset well which encountered oil but too high a water cut to currently produce the well economically. Planned facility expansion later this year will allow production to commence from the well. The first commitment well under the farmin agreement has been cased and will shortly commence production testing.

The Pekisko play in the Princess area meets the Company's economic criteria in regard to payout and recycle ratio, consistent with the Company's other oil opportunities and provides the scalability Twin Butte wants to achieve in the area. The farmout block is entirely covered with proprietary 3D seismic, which Twin Butte will earn rights to as part of the agreement. The Company has identified over 50 horizontal Pekisko oil locations on the lands.

OUTLOOK

The Company's organic exploration and development program provided substantial growth in production and reserves in 2010. With over 350 net oil drilling locations the stage is set for continued profitable growth in the Company's asset value through the drill bit. Twin Butte has positioned itself in scalable and repeatable play types in core areas that can make a meaningful difference to future corporate growth.

In light of Twin Butte's strong balance sheet and continued success of our ongoing oil drilling program the Company has decided to expand its 2011 base capital plan from our originally budgeted \$55 million to \$65 million. Previous production guidance for 2011 of 8,000 and 8,500 boe per day average and exit respectively will increase under the new capital plan to 8,250 and 9,200 boe per day average and exit respectively. The capital program will be funded entirely by corporate cash flow therefore preserving balance sheet flexibility. Potential proceeds from the exercise of remaining warrants or noncore asset sales post Q1 may be directed to increasing the base capital program. It is anticipated that 2011 year end debt will be approximately \$ 72 million representing less than 1.0 times expected Q4 2011 annualized cash flow. The 2011 capital plan which is 100 percent oil weighted includes the drilling 152 gross (103 net) wells.

Twin Butte's employees, executive, and Board have worked very diligently throughout 2010 to achieve the Company's success. The Team remains extremely motivated to meet and exceed the expectations it has set.

Twin Butte is a value oriented emerging intermediate producer with a significant and growing scalable and repeatable 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 2011 capital plan is highly focused to two core areas in Alberta 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
March 22, 2011

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 March 22, 2011

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, 2010.

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, and net debt, 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 activities 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. Net debt is defined as the sum of working capital deficiency and other liabilities excluding financial derivative assets or liabilities. 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. Operating netback is a Non-GAAP Measure and is the net of revenue, realized gain on financial derivatives, royalties, operating and transportation expenses.

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, and 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	
	2010	2009	2010	2009
Average Twin Butte Realized Commodity Prices⁽¹⁾				
Crude oil (\$ per bbl)	64.49	66.22	63.56	62.42
Natural gas (\$ per Mcf)	3.83	4.78	4.27	4.26
Natural gas liquids (\$ per bbl)	66.10	62.07	66.35	52.54
Barrels of oil equivalent (\$ per boe, 6:1)	44.18	42.24	42.48	36.82
(1) The average selling prices reported are before realized financial instrument gains/losses and transportation charges.				
Benchmark Pricing				
WTI crude oil (US\$ per bbl)	85.17	76.19	79.53	61.80
Edmonton Light sweet crude (Cdn\$ per bbl)	80.68	80.48	77.82	70.54
AECO natural gas (Cdn\$ per Mcf) (2)	3.63	4.50	4.00	3.95
Exchange rate – (Cdn\$/US\$)	1.01	1.06	1.03	1.14
(2) The AECO natural gas price reported is the average daily spot price.				
Revenue				
\$000's				
Crude oil	19,802	11,022	60,850	22,126
Natural gas	7,424	9,533	34,348	22,933
Natural gas liquids	1,885	1,595	6,678	3,366
Total petroleum and natural gas sales	29,111	22,150	101,876	48,425
Average Daily Production				
Crude oil & Natural gas liquids (bbl/day)	1,156	813	1,026	825
Heavy Oil (bbl/day)	2,491	1,276	1,873	322
Natural gas (Mcf/day)	21,085	21,664	22,033	14,743
Total (boe/d)	7,161	5,699	6,571	3,604
% natural gas production	49%	63%	56%	68%

Revenues for the three months ended December 31, 2010 were \$29.1 million, as compared to \$22.2 million for the three months ended December 31, 2009 representing an increase of \$6.9 million or 31%. This increase in revenue is attributed primarily to a year over year increase in production of 26% and an increase in the average price per boe received of 5%. Production grew from 5,699 boe/d in the three months ended December 31, 2009 to 7,161 boe/d for the three months ended December 31, 2010. The increase in production was a result of the 2010 drilling program and an acquisition effective December 1, 2010. The average realized commodity price before hedging also increased from \$42.24 per boe in 2009 to \$44.18 per boe in the three months 2010.

Revenues for the year ended December 31, 2010 were \$101.9 million, as compared to \$48.4 million for the year ended December 31, 2009, representing an increase of \$53.5 million or 110%. This increase in revenue is again attributed to production increases of 82% and commodity price increase of 15%. Production increased from 3,604 boe/d in 2009 to 6,571 boe/d in 2010. The average realized commodity price before hedging increased from \$36.82 per boe in 2009 to \$42.48 in 2010. The production growth was a combination of the Buffalo Resources acquisition taking effect for an entire year, along with the 2010 drilling program and the smaller acquisition late in the fourth quarter 2010.

The Company's weighting to oil and liquids for the fourth quarter of 2010 was 51% compared to a weighting of 37% for the fourth quarter of 2009. The Company's weighting to oil and liquids for the year ended December 31, 2010 and the prior year comparative period was 44% and 32% respectively. The weighting has changed mainly due to the Buffalo acquisition and the

Company drilling program since that time, and has been one of the major factors in seeing the increase in revenue per boe in both comparative periods. We anticipate the oil/gas weighting ratio will continue to increase.

ROYALTIES

	Three months ended December 31		Twelve months ended December 31	
(\$000's)	2010	2009	2010	2009
Royalty Breakdown				
Crude Oil	1,088	188	3,782	1,233
Natural Gas	772	1,167	3,999	1,743
NGL's	738	591	3,040	1,377
Indian Oil & Gas Canada (Heavy oil)	2,984	1,868	9,913	1,868
Total Royalties	5,582	3,814	20,734	6,221
% of Revenue	19%	17%	20%	13%
per Boe	\$8.47	\$7.27	\$8.65	\$4.73

Royalties for the three months ended December 31, 2010 were \$5.6 million, as compared to \$3.8 million for the three months ended December 31, 2009. Royalties on an absolute basis increased as a result of increased production volumes from drilling success and the acquisitions from 2009. Liquids production comprised 51% of volumes for the fourth quarter 2010 as compared to 37% in 2009. As a percentage of revenues, the average royalty rate for the fourth quarter of 2010 was 19% compared to 17% for the comparative period of 2009. The rate has increased as the Company increases its oil weighting. Oil and liquids royalty rates were approximately 22% for the fourth quarter of 2010 while gas royalties were approximately 10%.

Royalties for the year ended December 31, 2010 were \$20.7 million, as compared to \$6.2 million for the year ended December 31, 2009. Royalties on an absolute basis increased with increased production volumes as a result of drilling success and the acquisitions from 2009. With this volume growth the average liquids production has moved to 44% of total volumes up from 32% in 2009. As a percentage of revenues, the average royalty rate for the twelve month period ended December 31, 2010 was 20% compared to 13% for the comparative period of 2009. Oil and liquids royalty rates were approximately 24% for the year ended 2010 while natural gas rates were approximately 12% of sales as compared to 25% and 8% respectively in 2009. With the higher oil prices compared to gas there is a higher royalty rate on liquids based production. Royalties for the year ended December 31 2009 also included a credit of \$0.5 million for B.C. royalties which reduced the overall 2009 royalty rate for the year by 2%.

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 maximized all drilling credits and has earned approximately \$4.0 million in drilling royalty credits for 2010.

On March 11, 2010, the Alberta Government announced additional modifications to the province's Crown royalty framework. The changes included:

- > The current maximum 5% 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 becomes a permanent element of the calculation effective January 1, 2011;
- > The maximum royalty rate for crude oil wells was reduced to 40% from the previous 50% rate. This change will be effective January 1, 2011;
- > The maximum royalty rate for natural gas wells was 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.

On May 27, 2010, the Alberta government released the new royalty curves associated with the changes announced on March 11, 2010, which determine royalty rates at certain commodity price levels, and revised the natural gas deep drilling credit to

wells deeper than 2,000 metres, compared to 2,500 metres previously. The deep drilling credit is \$625 per metre for metres below 2,000 metres to 3,500 metres. The drilling credits are treated as a reduction in capital spending.

OPERATING & TRANSPORTATION EXPENSES

Operating expenses were \$9.1 million or \$13.79 per boe for the quarter ended December 31, 2010 as compared to \$6.8 million or \$12.94 per boe for the three months ended December 31, 2009. Operating expenses were \$32.7 million or \$13.64 per boe for the year ended December 31, 2010 as compared to \$17.4 million or \$13.19 per boe for the year ended December 31, 2009. The increase on an absolute dollar basis is mainly attributable to the oil weighted production growth from acquisitions in 2009 and our internal drilling program. Oil operating costs are generally more expensive than gas operating costs. In the second and third quarter, the Company incurred additional hauling and treating charges at Frog Lake with the increased heavy oil volumes and wet weather that restricted movement.

The Company has implemented various cost saving initiatives and are starting to see results. In our Frog Lake area, the Company has drilled a salt water disposal well in order to save on 3rd party disposal fees. The Company is also tying in all our Frog Lake wells in order to use fuel gas produced from the field, replacing propane. Finally, specific chemicals are being added to break up emulsion for lower processing and trucking charges.

Operating & Transportation Expense (000's except per boe amounts)	Three months ended December 31				Twelve months ended December 31			
	2010	\$ per boe	2009	\$ per boe	2010	\$ per boe	2009	\$ per boe
Operating expenses	9,085	13.79	6,783	12.94	32,709	13.64	17,350	13.19
Transportation	1,085	1.65	827	1.58	3,842	1.60	2,777	2.11
Total	10,170	15.44	7,610	14.52	36,551	15.24	20,127	15.30

Transportation expenses for the three months ended December 31, 2010 were \$1.1 million or \$1.65 per boe compared to \$0.8 million or \$1.58 per boe in the prior comparative quarter. Transportation expenses for the year ended December 31, 2010 were \$3.8 million or \$1.60 per boe compared to \$2.8 million or \$2.11 per boe in the prior year comparative period. The increase on an absolute basis is mainly attributable to the production growth from acquisitions in 2009 and our internal drilling program, while on a boe basis the cost has decreased for the year mainly due to the higher oil weighting, which is trucked for processing before being transported.

On a combined basis for the year we have consistent operating and transportation costs of \$15.24 per boe as compared to \$15.30 per boe for the comparable period of 2009.

GENERAL AND ADMINISTRATIVE ("G&A") EXPENSES

(\$ 000's)	Three months ended December 31		Twelve months ended December 31	
	2010	2009	2010	2009
G&A expenses	2,497	2,465	9,695	6,698
Recoveries	(723)	(206)	(1,903)	(385)
Capitalized G&A expenses	(545)	(358)	(2,073)	(1,120)
Total net G&A expenses	1,229	1,901	5,719	5,193
Total net G&A expenses (\$/boe)	\$1.87	\$3.63	\$2.38	\$3.95

General and administrative expenses, net of recoveries and capitalized G&A, were \$1.2 million or \$1.87 per boe for the current quarter as compared to \$1.9 million or \$3.63 per boe in the prior year comparative quarter. General and administrative expenses, net of recoveries and capitalized G&A, were \$5.7 million or \$2.38 per boe for the year ended December 31, 2010 as compared to \$5.2 million or \$3.95 per boe in the prior year comparative period.

While total G&A costs have increased for both three and twelve month comparatives due to the additional staff and costs of running the larger operation, on a per barrel basis we have seen a significant 40% reduction for the twelve month comparative from \$3.95 to \$2.38 per boe. This reduction is largely attributable to the much larger recoveries from capital expenditures in 2010 over 2009 combined with increased production volumes. We anticipate G&A on a BOE basis to continue to decline slightly in 2011.

STOCK BASED COMPENSATION EXPENSE

During the three month period ended December 31, 2010, the Company expensed \$0.3 million in stock based compensation as compared to \$0.1 million in the three month period ended December 31, 2009. During the year ended December 31, 2010, the Company expensed \$0.8 million in stock based compensation as compared to \$1.4 million in the prior year comparative period. The prior period included a charge for stock based compensation expense recorded on the remaining unrecognized fair value of outstanding stock options that were cancelled in that period.

The Company granted 1,990,650 stock options in the fourth quarter of 2010 as compared to 1,205,000 stock option grants in the fourth quarter of 2009. For the year ended December 31, 2010 5,921,150 stock options were granted as compared to 3,222,500 stock options in 2009.

INTEREST EXPENSE

For the three months ended December 31, 2010, interest expense was \$0.9 million, as compared to \$1.3 million in the prior year comparative quarter. For the year ended December 31, 2010 interest expense was \$3.3 million, an increase of \$0.8 million from \$2.5 million for the prior year comparative year. Higher interest costs in the 2010 year end compared to the 2009 year end 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 3.0% plus a margin of 1.50% for a total effective rate of 4.2%. This compares to last year's effective rate of 4.4%

UNREALIZED AND REALIZED GAINS (LOSSES) ON FINANCIAL DERIVATIVES

During 2009 and 2010, the Company entered into fixed price swaps and written calls 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 price 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 a major Canadian bank as our counterparty on financial derivatives and limits the volumes hedged to a maximum of 50% or less of forecasted sales volumes.

The Company has recognized a realized gain on financial derivatives in the amount of \$1.7 million (\$2.51 per boe) for the three month period ended December 31, 2010 as compared to a \$0.2 million (\$0.38 per boe) realized gain for the prior year comparative period. The realized gain on financial derivatives for the three month period ended December 31, 2010 amounted to a gain of \$1.9 million for natural gas sales price derivatives, a loss of \$0.2 million for crude oil sales price derivatives and a loss of \$12 thousand for interest rate derivatives.

The Company has recognized a realized gain on financial derivatives in the amount of \$5.3 million (\$2.22 per boe) for the year ended December 31, 2010 as compared to a \$3.3 million (\$2.49 per boe) realized gain for the prior year comparative period. The realized gain on financial derivatives for the year ended December 31, 2010 included a gain of \$5.5 million for natural gas sales price derivatives, a loss of \$27 thousand for crude oil sales price derivatives and a loss of \$144 thousand for interest rate derivatives.

As at December 31, 2010, the Company has recognized a net unrealized financial derivatives liability in the amount of \$2.7 million. The Company has recognized an unrealized loss on financial derivatives in the amount of \$3.7 million for the three month period ended December 31, 2010 as compared to a \$0.4 million unrealized loss for the prior year comparative period.

For the year ended December 31, 2010 the Company had posted a loss of \$1.5 million on unrealized financial derivatives as compared to a loss of \$3.3 million for the year 2009.

The Company has been able to take advantage of oil production to enhance our natural gas price over the next year through the use of an enhanced swap where we sell forward calls on oil production for 2011 and 2012 at prices above the strip market

and use this value to enhance the swap price we will receive on natural gas sales through 2011 at prices above the strip price. This increased gas price provides additional certainty to cash flow which is then recycled into an increased capital program.

The following is a summary of derivatives in effect as at December 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)	Written Fixed call price per bbl WTI	Fair market value \$ 000's
300	January 1 to December 31, 2011	\$92.04		\$ (188)
200	January 1 to December 31, 2011	\$88.00		\$ (418)
200	January 1 to December 31, 2011	\$89.40		\$ (317)
1000	January 1 to December 31, 2011		US \$95.00	\$ (2,366)
1000	January 1 to December 31, 2012		US \$100.00	\$ (3,339)
Crude oil fair value position				\$ (6,628)

Natural Gas Sales Price Derivatives

Daily giga-joule ("GJ") quantity	Remaining term of contract	Fixed price per GJ (AECO) Daily	Written Fixed call price per GJ (AECO Monthly)	Fair market value \$ 000's
3,000	January 1, 2011 to December 31, 2011		\$7.00	\$ (7)
6,000	January 1, 2011 to October 31, 2011	\$5.90		\$ 3,953
Natural gas fair value position				\$ 3,946

Subsequent to December 31, 2010 the Company entered into the following crude oil sale price derivative:

Daily barrel (bbl) quantity	Term of contract	Fixed Price per bbl (WTI) Cdn
300	February 1, 2011 to December 31, 2011	\$ 95.05
300	March 1, 2011 to December 31, 2011	\$ 98.05
300	January 1, 2012 to December 31, 2012	\$ 100.45

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 December 31, 2010 the marked-to-market value of the Company's fixed/floating interest rate derivative contract was a liability of approximately \$4,400.

DEPLETION, DEPRECIATION AND ACCRETION EXPENSE

For the three month period ended December 31, 2010, depletion and depreciation of capital assets and the accretion of the asset retirement obligations was \$10.8 million or \$16.42 per boe compared to \$8.7 million or \$16.10 per boe for the three month period ended December 31, 2009. For the year ended December 31, 2010, depletion and depreciation of capital assets and the accretion of the asset retirement obligations was \$40.0 million or \$16.66 per boe compared to \$30.4 million or \$22.55 per boe for the year ended December 31, 2009. Per unit depletion rates during the year ended December 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, Buffalo Resources Corp. in the fourth quarter of 2009 and low cost drilling results over the past year, 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 \$0.6 million for the three month period ended December 31, 2010 compared to a future income tax recovery in the amount of \$0.5 million for the three month period ended December 31, 2009. Future income tax recovery amounted to \$0.1 million for the year ended December 31, 2010 compared to a future income tax recovery in the amount of \$4.8 million for the year ended December 31, 2009. The loss in 2009 was much larger due to higher depletion and lower commodity prices.

The Company has existing tax losses and pools of approximately \$309.8 million.

FUNDS FLOW FROM OPERATIONS, AND NET LOSS AND COMPREHENSIVE LOSS

Funds flow from operations for the three month period ended December 31, 2010 was \$12.9 million, an increase of 67% from fourth quarter 2009 funds flow of \$7.7 million. This represents \$0.10 funds flow per diluted share compared to \$0.08 funds flow per diluted share for the three months ended December 31, 2009 and \$0.08 funds flow per share in the third quarter 2010. The increase in funds flow from 2009 to 2010 is due primarily to the 26% increase in production to 7,161 boe/d from 5,699 boe/d, along with improved commodity pricing.

Funds flow from operations for the year ended December 31, 2010 was \$40.9 million, an increase of 132% from the year ended December 31, 2009 cash flow of \$17.6 million. This represents a 16% increase in funds flow per share basic and diluted of \$0.32 per share for the year ended December 31, 2010 compared to \$0.28 funds flow per share basic and diluted for the prior year comparative period. The significant increase in funds flow is due primarily to the 82% increase in production along with improved commodity weighting to oil and liquids.

Even with stronger commodity prices the Company posted a net loss and comprehensive loss of \$1.4 million for the three month period ended December 31, 2010, equating to a basic and diluted net loss per share of \$0.01, compared to a net loss and comprehensive loss of \$1.0 million for the three month period ended December 31, 2009, equating to a basic and diluted net loss per share of \$0.01. The Company posted a net loss of \$1.1 million for the year ended December 31, 2010, equating to a basic and diluted net loss per share of \$0.01, compared to a 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. Lower depletion per barrel reduced the loss considerably.

The net loss and comprehensive loss of \$1.3 million for the year ended December 31, 2010 includes non-cash items including depletion, depreciation and accretion expense of \$40.0 million, future income tax recovery of \$0.1 million, unrealized loss on financial derivatives of \$1.5 million and stock based compensation expense of \$0.8 million.

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

(\$ per boe)	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008
Petroleum and natural gas sales	44.18	39.21	40.44	46.14	42.24	31.99	32.07	35.58	47.07
Royalties	(8.47)	(7.97)	(8.72)	(9.51)	(7.27)	(3.55)	(0.55)	(4.99)	(8.54)
Realized gain on financial derivatives	2.51	3.18	2.56	0.48	0.38	2.92	1.58	7.14	2.43
Operating expenses	(13.79)	(12.93)	(14.34)	(13.47)	(12.94)	(12.99)	(13.70)	(13.39)	(13.31)
Transportation expenses	(1.65)	(1.58)	(1.42)	(1.77)	(1.58)	(2.41)	(2.32)	(2.66)	(2.47)
Operating netback	22.78	19.91	18.52	21.87	20.83	15.96	17.08	21.68	25.18
General and administrative expenses	(1.87)	(2.34)	(2.69)	(2.72)	(3.63)	(3.42)	(5.15)	(3.93)	(4.61)
Interest expense	(1.36)	(0.69)	(1.43)	(1.56)	(2.52)	(1.62)	(1.59)	(1.40)	(1.82)
Funds flow from operations	19.55	16.88	14.40	17.59	14.68	10.92	10.34	16.35	18.75

QUARTERLY FINANCIAL SUMMARY

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

(\$ thousands, except per share amounts)	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008
Average production (boe/d)	7,161	6,481	6,489	6,140	5,699	2,894	2,864	2,936	3,039
Petroleum and natural gas sales	29,111	23,382	23,880	25,503	22,150	8,519	8,359	9,396	13,158
Operating netback (per boe)	22.78	19.91	18.52	21.87	20.83	15.96	17.08	21.68	25.18
Funds flow from operations	12,887	10,069	8,261	9,726	7,714	2,906	2,691	4,319	5,243
Per share basic & diluted	0.10	0.08	0.06	0.08	0.08	0.05	0.06	0.09	0.12
Net income (loss)	(1,148)	(1,135)	(1,739)	3,077	(961)	(3,542)	(3,328)	(4,858)	(4,001)
Per share basic & diluted	(0.01)	(0.01)	(0.01)	0.03	(0.01)	(0.06)	(0.07)	(0.10)	(0.09)
Corporate acquisitions	20,109	–	–	–	120,539	10,624	–	–	–
Capital expenditures (net of dispositions)	12,340	11,765	5,309	5,633	(1,437)	2,042	(9,022)	5,412	9,211
Total assets	337,685	306,658	300,118	302,632	308,640	177,407	169,448	183,687	190,665
Net debt	96,026	76,238	74,366	77,212	102,911	42,114	39,889	51,390	50,309

CORPORATE ACQUISITIONS

On December 1, 2010, the Company purchased producing petroleum and natural gas assets in Western Alberta, for total consideration of \$20.7 million. The purchase was paid for in cash and was recognized as a business combination in accordance with CICA Handbook Section 1582, as the acquired assets meet the definition of a business.

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 retained 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 fourth quarter of 2010, the Company invested \$32.4 million on capital activity, including net property acquisitions / dispositions of \$18.5 million. Property dispositions of \$1.6 million 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 fourth quarter were focused predominantly in the heavy oil core area of Frog Lake, drilling 27 (14.6 net) oil wells and 1 (0.5 net) service wells in that area, of the 28 (15.1 net) total wells drilled in the third quarter. In addition, the Company drilled one Lloydminster oil well at Bruce, one horizontal Pekisko oil well at Princess, one horizontal liquids rich Cardium gas well at Ansell, and one D&A well at Jenner.

The Company has drilled a total of 88 (51.1 net) wells in the year, with 84 oil, 2 gas and 1 dry well. During the year ended December 31, 2010, the Company has invested \$46.9 million on capital activity. In addition, the Company completed property acquisitions and dispositions for net outlay of \$8.3 million leaving net capital invested at \$55.2 million. The following tables summarize capital expenditures, drilling results and undeveloped land positions for 2010 and 2009.

(\$ 000's)	Three months ended December 31		Twelve months ended December 31	
	2010	2009	2010	2009
Land acquisition	6	100	664	272
Geological and geophysical	1,002	1,570	1,596	1,921
Drilling and completions	8,167	3,867	29,925	7,121
Equipping and facilities	4,211	2,113	12,660	5,786
Property acquisitions	20,109	41	20,525	69
Property dispositions	(1,590)	(9,499)	(12,272)	(19,313)
Other	544	371	2,068	1,139
Total net capital expenditures	32,449	(1,437)	55,166	(3,005)

During the year, the Company disposed of 14 non-core assets for proceeds of \$12.3 million. These proceeds were cycled back into the capital program.

Drilling Results

Three months ended December 31	2010		2009	
	Gross	Net	Gross	Net
Crude oil	28	15.1	10.0	5.0
Natural gas	0	0.0	3.0	1.4
Dry and abandoned	0	0.0	0	0
Service	0	0.0	0	0
Total	28	15.1	13.0	6.4
Success rate (%)	100%		100%	

Year ended December 31	2010		2009	
	Gross	Net	Gross	Net
Crude oil	84	47.6	11.0	6.0
Natural gas	2	2.0	6.0	4.5
Dry and abandoned	1	1.0	1.0	1.0
Service	1	0.5		
Total	88	51.1	18.0	11.5
Success rate (%)	98%		91%	

Undeveloped Land

The Company's undeveloped land position has declined slightly since the corporate acquisitions of Can-Able Energy Ltd. and Buffalo Resources Corp in 2009.

Year ended December 31	2010	2009
Gross Acres	352,029	371,835
Net Acres	256,377	262,634

LIQUIDITY AND CAPITAL RESOURCES

While the Company has no current going concern exposures, it still evaluates its ability to carry on business as a going concern on a quarterly basis. The key indicator is whether the funds flow (a non-GAAP measure) will be sufficient to cover all obligations. In addition, the Company budgets to use funds 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 funds flow from operations. In order to maintain the Company's net debt at current or lower levels, Twin Butte

plans to limit capital expenditures to approximately funds 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, 2010, the Company had a credit facility with a syndicate of two Canadian chartered banks in the amount of \$128.0 million which was renewed during the fourth quarter, 2010. The credit facility is composed of a \$128.0 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 April 2011. 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 debt to cash flow ratio from the quarterly results two quarters earlier. 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. The facility is revolving, and is reviewed at each semi-annual review by the syndicate.

At December 31, 2010, the Company had \$97.7 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 \$96.0 million. The Company has \$30.3 million undrawn line on its credit facility; Twin Butte has met all of its covenants pertaining to this loan agreement and was not required to make any repayments. Subsequent to year-end, we have reduced net debt by \$17.3 million, as proceeds from a property disposition of \$10.2 million were received, and \$7.1 was collected from exercised warrants.

On an ongoing basis the Company will review its capital expenditures to ensure that funds 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 funds flow to manage debt levels.

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

The following table illustrates the effects of movement in commodity prices on net income due to changes in the fair value of risk management contracts in place at December 31, 2010 and 2009. The December 31, 2009 effects are presented for comparison purposes only and do not represent actual changes. The sensitivity is based on a WTI oil prices, AECO natural gas prices and interest rates, and would have been as follows:

Net loss change

(\$ thousands)	2010	2009
Impact on the fiscal year 2010 and 2009		
Change in WTI oil price by US \$1.00 per barrel	590	256
Change in AECO natural gas price by Cdn \$0.10 per mcf	510	329
Change in interest rate by 1 percent	605	328

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

As of March 22, 2011 the Company has 131,660,750 Common Shares, 6,228,928 warrants convertible to 4,360,251 Common Shares, and 8,430,401 stock options outstanding. The outstanding Common Shares have increased since year end as 4,771,072 warrants have been exercised into 3,339,749 Common Shares at a price of \$2.14.

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.

As at December 31, 2010, the Company had contractual obligations and commitments for base office rent and equipment as follows:

2011	1,161,387
2012	763,517

RELATED PARTY TRANSACTIONS

During the year ended December 31, 2010 the Company incurred costs totaling \$3.0 million (December 31, 2009 – \$37,000) 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. As at December 31, 2010, the Company had \$1.1 million included in accounts payable and accrued liabilities related to these transactions (December 31, 2009 – \$Nil).

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 an 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 is 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 credit-worthy 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 and equity markets in 2010 in spite of weaker economic conditions and financial market volatility. The Company entered into the \$128.0 million demand revolving credit facility in conjunction with the Buffalo acquisition. In early 2010, 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, 2010, 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, 2010 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, 2010.

NEWLY ADOPTED ACCOUNTING POLICIES

On January 1, 2010, Twin Butte early 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 has impacted the accounting for business combinations entered into after January 1, 2010 (note 2).

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. The adoption of this standard has not had an impact on Twin Butte's financial statements.

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

IFRS will replace Canadian GAAP for publicly accountable enterprises effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will be required to prepare financial statements in accordance with IFRS beginning on January 1, 2011, including the reporting of 2010 IFRS comparatives.

The Company has dedicated staff to its IFRS conversion project and developed a changeover plan which includes the following:

- > assessment of the key IFRS differences from current accounting practices under Canadian GAAP
- > evaluation of accounting policy choices and transitional exemptions available under IFRS
- > formation and documentation of IFRS accounting policies
- > determination of the impact of IFRS on information technology, internal controls over financial reporting, disclosure controls and procedures, and any other business activities that rely on financial statement figures as an input
- > implementation of IFRS accounting policies, modification of data gathering processes and reporting systems, redesign of internal controls and disclosure controls where appropriate
- > preparation of transitional data and draft financials including associated disclosures and
- > IFRS training, including technical training for finance and operational staff, senior management and the Board of Directors (including the Audit Committee) as well as the education of analysts and other external stakeholders regarding IFRS conversion impacts

The Company has substantially completed the assessment of key IFRS differences from current practices under Canadian GAAP, but continues to monitor IFRS developments and research further the detailed implications of identified differences. The Company has also substantially completed its evaluation of accounting policy choices and transitional exemptions available under IFRS. Drafting of the Company's IFRS accounting policies is principally complete; however drafted policies remain subject to change throughout 2011 as a result of IFRS developments and findings from peer benchmarking in areas of significant choice. The Company began its IFRS policy implementation in the fourth quarter of 2010, including the roll out of IFRS accounting policies to staff and the application of policies to 2010 financial data to commence preparation of 2010 IFRS comparatives for reporting in 2011. IFRS implementation is not expected to be complete until the end of the first quarter, 2011. The Company has substantially completed the drafting of its opening balance sheet as at January 1, 2010, the date of transition to IFRS, including some preliminary discussion with and review by the Company's auditors. The Company expects to draft its IFRS accounting policy note disclosure as well as transitional note disclosure, including the required Canadian GAAP to IFRS reconciliations, throughout the first quarter of 2011. Full IFRS financial statements are not expected to be drafted until sometime in the first quarter of 2011.

Upon transition, the Company is required to apply IFRS retrospectively except for a number of optional exemptions and mandatory exceptions. The Company's intention is to apply the following optional exemptions:

- > **Deemed Cost Exemption IFRS 1:** Permits a first time adopter that employed full cost accounting under its previous GAAP to elect to measure oil and natural gas assets at the date of transition to IFRS at the amount determined under the entity's previous GAAP. This exemption essentially allows the Company to value its property, plant and equipment ("PP&E") at net book value on transition. The exemption further provides for a means to allocate the full cost pool PP&E net book value based on reserves values thereby allowing the Company to compute opening PP&E balance figures at the unit of account level required for DD&A as certain costs under Canadian GAAP were historically accounted for on a more aggregated basis. The Company intends to exclude land without proved or probable reserves assigned from PP&E net book

value and then use proved plus probable reserve values to allocate the residual net book value to an appropriate unit of account level that can be used for DD&A and impairment purposes. In conjunction with this exemption, the Company will re-measure its asset retirement obligations using a risk free rate, and recognize directly into retained earnings any difference from the amount recorded under Canadian GAAP.

- > **Business Combinations Exemption:** Permits a first time adopter relief from retrospective restatement of Business Combinations in accordance with IFRS prior to the date of transition to IFRS. Twin Butte will elect not to restate business combinations entered into prior to the date of transition, January 1, 2010.
- > **Share Based Payment Transactions Exemption:** Permits a first time adopter relief from retrospective accounting for stock based compensation in accordance with IFRS for options that vested prior to the date of transition to IFRS. Twin Butte will elect not to restate the compensation expense previously recognized for vested options.

Other optional exemptions and mandatory exceptions are expected to be of minimal significance.

The Company expects transitional adjustments in the opening balance sheet to be limited. Although PP&E will be managed at a sub category level tracking exploration and evaluation ("E&E") expenditures and development and production ("D&P") expenditures separately, total PP&E net book value is expected to remain unchanged from Canadian GAAP as no PP&E impairment is anticipated on transition. Management has identified approximately \$27 million of its property, plant and equipment that meets the criteria to be classified as E&E in the opening balance sheet prepared under IFRS as at January 1, 2010. The Company has determined to use the risk-free rate (10 year Canada bond) to discount its asset retirement obligations ("ARO") in lieu of a credit adjusted risk-free rate (company cost of capital) as employed under Canadian GAAP. The impact would be a significant increase in the ARO liability on the balance sheet (approximately \$9 million) with an offsetting downward revision to retained earnings. Opening balance sheet adjustments will also likely be made in respect of historical flow-through share issues (reclassification between share capital and retained earnings) and future income taxes (tax impact of recording incremental ARO liabilities using a risk free rate).

As a result of conversion work performed to date, the following changes are expected in the Company's accounting practices:

- > **PP&E:** The Company currently follows the Canadian Institute of Chartered Accountants' guideline on full cost accounting however no equivalent IFRS guidance exists. The Company has drafted its own accounting policies for PP&E, particularly with respect to E&E expenditures where standards permit an entity significant latitude in policy decisions. The Company's capitalization guidance addresses the treatment of pre-license costs, E&E costs and D&P costs including the treatment of capitalized general and administrative ("G&A") expenses and borrowing costs. The Company expects more pre-license exploration costs such as initial seismic costs will be expensed under IFRS. It is also likely that more E&E costs will be expensed if technical feasibility and commercial viability cannot be established for certain E&E property groupings. Fewer G&A expenditures will likely meet capitalization criteria, and the Company will start to capitalize interest on qualifying assets.
- > **DD&A:** DD&A will be calculated at a lower unit of account than the current corporate level calculation, and the Company anticipates using proved plus probable reserves, as opposed to proved reserves alone. This will likely result in a lower DD&A charge per barrel of production.
- > **Impairment testing:** Impairment will also be assessed at a lower unit of account than the current corporate level ceiling test. Impairment testing frequency may increase, the mechanics of impairment testing calculations will be more rigorous, and impairment losses recognized will be subject to reversal (other than goodwill). As a result of the impairment standard differences between Canadian GAAP and IFRS, a greater likelihood of impairment loss and associated reversal may increase income statement volatility under IFRS.
- > **Business Combinations:** The company has early adopted 1582 Business Combination, eliminating transition differences with IFRS 1 exemption.
- > **Other financial statement accounting areas:** The calculation of future income taxes, foreign exchange, stock based compensation and potentially ARO will be subject to change under IFRS. At the present time and based on current assets and transaction activity, the impact of these changes are expected to be relatively minimal. The exception is the use of a risk-free rate to discount ARO (as opposed to a credit-adjusted risk free rate) which could result in a material change in the

amount of ARO capitalized and recorded as a liability, particularly if the Company undertakes significant abandonment obligations.

- > **Pervasive increase in financial statement disclosures under IFRS:** IFRS has extensive disclosure requirements which generally result in significantly more disclosure than Canadian GAAP. There is more flexibility with regards to accounting policy selection under IFRS and as a result additional disclosures are often required to enhance comparability and explain the accounting treatment employed.

The Company continues to analyze the impact of IFRS on information technology, internal controls over financial reporting, disclosure controls and procedures, and any other business activities that rely on financial statement figures as an input.

Changes to the Company's accounting system are necessary to support the requirements of IFRS. Amongst other changes, the Company was required to track capital and other costs at a lower unit of account as well as be able to segregate and transfer capital at different stages of development between classification categories. There is also a need to ensure dual data capture in 2010 so as to be able to report under Canadian GAAP in 2010 and also prepare 2010 IFRS comparatives for 2011 IFRS reporting. The Company has worked with its accounting software provider to build the necessary functionality into its accounting system. To date, the Company has made modifications to its accounting system organizational structure, accounting system hierarchy, chart of accounts and capital accounting procedures. Accounting system modifications are expected to be ongoing throughout the first quarter of 2011 as opening balance sheet adjustments are booked in the system and 2010 IFRS comparative figures are prepared.

Changes to accounting policies and practices under IFRS require some modification of internal control over financial reporting and disclosure controls and procedures. Changes include the addition of new controls to address new or transitional risks under IFRS as well as the revision of existing controls to reflect new policies and practices under IFRS. Modifications to the control environment are being made where necessary in conjunction with accounting policy implementation. The Company's intention is to ensure the integrity of internal controls over financial reporting and disclosure controls and procedures is maintained. The Company expects to complete the design and initially evaluate the effectiveness of these new and modified controls in the first quarter of 2011 to prepare for certification under IFRS in the first quarter of 2011.

The Company continues to examine the impact of IFRS on its business activities that rely on financial statement figures as an input. The cost of borrowing in respect of the Company's credit facility is dependent upon the Company's senior debt to annualized cash flow ratio. Cash flow will not be affected by the transition to IFRS. Management may introduce a compensation plan in which financial statement figures are used as an input for a performance measure. The transition to IFRS may produce a different performance result than under Canadian GAAP. Management may choose to use an adjusted financial statement figure as an input in lieu. The Company plans to undertake future budgeting exercises considering expected IFRS accounting policies and practices. Future income tax filings may use IFRS as the starting point for the calculation of income for tax purposes as opposed to Canadian GAAP. This change is not expected to significantly impact taxable income as tax rules override accounting treatment in the calculation of taxable income. The Company will continue to consider the implications of the transition to IFRS on business activities but currently expects limited modifications to business activities as IFRS impacts are beyond the control of the entity and do not change the economic reality of transactions.

Management considers the technical training of finance and operational staff, senior management and the Board of Directors (including the Audit Committee) as an integral part of its IFRS conversion process. The Company has dedicated a staff member to its conversion project and continues to engage key financial and operational staff in conversion project activities. The Company holds regular IFRS meetings with its external auditors to confirm its understanding of IFRS standards and receive feedback on accounting policy decisions. Training is being provided to employees affected by the IFRS transition in conjunction with IFRS accounting policy implementation and system modification activities. The senior management team has reviewed and approved draft IFRS accounting policy documentation. The Company has provided for IFRS information sessions for the Board of Directors (including Audit Committee members) and continues to engage the Board of Directors and Audit Committee in its conversion process. The training process will continue throughout the conversion project and is not expected to be complete until IFRS is fully implemented in 2011.

The education of analysts and other external stakeholders regarding IFRS conversion impacts has also been deemed a priority for management. This MD&A disclosure are intended to provide summary changeover information.

The Company will also endeavor to communicate IFRS conversion information to interested parties by other means such as inclusion in meeting dialogue and via inquiry response.

The Company continues to move forward with its changeover plan in preparation for IFRS adoption in 2011 and will continue to provide status updates as the conversion project progresses.

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.

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 22, 2011

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Twin Butte Energy Ltd.:

We have audited the accompanying financial statements of Twin Butte Energy Ltd., which comprise the balance sheets as at December 31, 2010 and 2009 and the statements of loss, comprehensive loss and deficit, and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of Twin Butte Energy Ltd. as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta

March 22, 2011

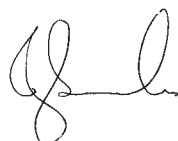
BALANCE SHEETS

As at	December 31 2010	December 31 2009
ASSETS		
Current Assets		
Accounts receivable	\$ 27,358,366	\$ 20,758,953
Deposits and prepaids expenses	2,453,327	3,181,862
Financial derivatives (note 10)	3,946,408	–
	33,758,101	23,940,815
Future income taxes	2,943,765	2,402,381
Property and equipment (note 2,3)	300,983,282	282,520,568
	\$ 337,685,148	\$ 308,863,764
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 27,778,844	\$ 29,713,116
Bank indebtedness (note 4)	97,704,683	96,342,448
Financial derivatives (note 10)	3,293,035	1,224,178
	128,776,562	127,279,742
Other liabilities (note 5)	354,471	795,871
Financial derivatives (note 10)	3,339,588	–
Asset retirement obligation (note 6)	17,592,316	14,855,867
	150,062,937	142,931,480
Shareholders' Equity		
Share capital (note 7)	210,039,150	188,005,760
Warrants (note 7)	912,408	912,408
Contributed surplus (note 7)	4,988,842	4,184,787
Deficit	(28,318,189)	(27,170,671)
	187,622,211	165,932,284
	\$ 337,685,148	\$ 308,863,764

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	2010	2009
REVENUE		
Petroleum and natural gas sales	\$ 101,876,236	\$ 48,425,012
Royalties	(20,733,780)	(6,209,764)
Realized gain on financial derivatives	5,323,784	3,271,357
Unrealized loss on derivatives (note 8)	(1,462,037)	(3,299,217)
	85,004,203	42,187,388
EXPENSES		
Operating	32,708,507	17,350,344
Transportation	3,841,840	2,777,148
General and administrative	5,719,047	5,193,161
Stock based compensation	809,228	1,436,938
Interest	3,255,342	2,534,883
Depletion, depreciation and accretion	39,965,396	30,402,398
	86,299,360	59,694,872
Loss before income taxes	(1,295,157)	(17,507,484)
Income taxes		
Future income tax recovery	(147,639)	(4,819,190)
	(147,639)	(4,819,190)
Net loss and comprehensive loss	\$ (1,147,518)	\$ (12,688,294)
Deficit, beginning of year	\$ (27,170,671)	\$ (14,482,377)
Deficit, end of year	\$ (28,318,189)	\$ (27,170,671)
Basic & diluted loss per share	\$ (0.01)	\$ (0.20)
Weighted average common shares outstanding		
Basic	126,546,454	62,392,250
Diluted	126,546,454	62,392,250

See accompanying notes to financial statements

STATEMENTS OF CASH FLOWS

Year Ended December 31	2010	2009
OPERATING ACTIVITIES		
Net loss	\$ (1,147,518)	\$ (12,688,294)
Items not involving cash		
Depletion, depreciation and accretion	39,965,396	30,402,398
Future tax recovery	(147,639)	(4,819,190)
Unrealized loss on financial derivative (note 8)	1,462,037	3,299,217
Stock based compensation (note 6)	809,228	1,436,938
	40,941,504	17,631,069
Expenditures on asset retirement obligations	(540,507)	(537,013)
Changes in non-cash working capital	(12,335,113)	(552,716)
	28,065,884	16,541,340
FINANCING ACTIVITIES		
Change in bank indebtedness	1,362,235	(18,266,329)
Issuance of share capital	23,000,000	–
Share issue costs	(1,416,861)	–
Issuance of share capital on exercise of stock options	51,333	(95,075)
	22,996,707	(18,361,404)
INVESTING ACTIVITIES		
Expenditures on property and equipment	(46,913,629)	(16,308,818)
Expenditures on producing assets	(20,524,798)	–
Proceeds on dispositions of property and equipment	12,272,459	18,249,348
Change in non-cash working capital	4,103,377	(120,466)
	(51,062,591)	1,820,064
Decrease in cash and cash equivalents	\$ –	\$ –
Cash and cash equivalents, beginning and end of year	\$ –	\$ –
Cash interest paid	3,255,342	2,440,435

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”) and are stated in Canadian dollars. 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

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.

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 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

Substantially all 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. 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 and deposits are designated as loans and receivables, and measured at amortized costs using the effective interest rate. Accounts payable and accrued liabilities, other liabilities and bank indebtedness are designated as other liabilities and measured at amortized cost using the effective interest rate. Financial derivatives are designated as held for trading.

j) 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.

k) 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.

l) Cash and cash equivalents

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

m) Revenue recognition

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

n) 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.

o) Newly Adopted Accounting Policies and Recent Accounting Pronouncements

On January 1, 2010, Twin Butte early 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 has impacted the accounting for business combinations entered into after January 1, 2010 (note 2).

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. The adoption of this standard has not had an impact on Twin Butte's financial statements.

p) 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.

NOTE 2. ACQUISITION EXPENDITURES

Property asset acquisition

On December 1, 2010, the Company purchased producing petroleum and natural gas assets in Western Alberta, for total consideration of \$20.7 million. The purpose of the acquisition was to increase oil exposure and increase the Frog Lake area lands. The purchase was paid for in cash and was recognized as a business combination in accordance with CICA Handbook Section 1582, as the acquired assets meet the definition of a business. The acquisition has been accounted for using the acquisition method, and the purchase price was allocated to the net assets acquired as follows:

Net Assets Acquired

	Total
Petroleum and natural gas properties	\$ 23,564,279
Asset retirement obligation	(2,822,100)
Total net assets acquired	\$ 20,742,179

Consideration

	Total
Cash	\$ 20,742,179
Total purchase price	\$ 20,742,179

These financial statements incorporate the results of operations of the acquired properties from December 1, 2010 onwards. For the year ended December 31, 2010, Twin Butte recorded revenue from oil, natural gas and natural gas liquids of \$1 million and net income of \$0.3 million in respect of the acquired assets. Had the acquisition occurred on January 1, 2010, for the year ended December 31, 2010, Twin Butte estimates that its pro forma revenues and net income would have been approximately \$13 million and \$2 million, respectively for the year. This was based on management's best estimate and is not necessarily indicative of future results. Twin Butte funded the acquisition from its revolving credit facility.

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

	Cost	Accumulated Net Depletion & Depreciation	December 31, 2010 Net Book Value	December 31, 2009 Net Book Value
Petroleum and natural gas properties	\$ 425,650,929	\$ 124,677,146	\$ 300,973,783	\$ 282,449,325
Office and computer equipment	214,179	204,680	9,499	71,243
Total	\$ 425,865,108	\$ 124,881,826	\$ 300,983,282	\$ 282,520,568

The Company has capitalized \$2.1 million of general and administrative expenses directly related to exploration and development activities for the year ended December 31, 2010 (\$1.1 million – December 31, 2009).

The cost of unproved property excluded from the depletion base as at December 31, 2010 was \$21,146,862 (\$26,790,931 – December 31, 2009). Future development costs on proved undeveloped reserves of \$85,267,000 as at December 31, 2010 are included in the calculation of depletion (\$49,041,400 – December 31, 2009).

During the year ended December 31, 2010, Twin Butte completed the sale of a combination of non-core properties in Alberta for net proceeds of \$12.3 million (\$19.3 million – December 31, 2009). The total net proceeds from the sales were credited against the full cost pool of oil and natural gas properties included in property and equipment. No gain or loss was recognized on these transactions as the depletion rate was not changed by 20% as a result of the transactions.

The Company performed a ceiling test calculation as at December 31, 2010 to assess the recoverable value of petroleum and natural gas properties. Future oil and gas prices are based on the January 1, 2011 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, 2010 year end ceiling test.

For calculation of the December 31, 2010 ceiling test, the benchmark prices used were as follows:

	Oil Edmonton Par Price 40 API CAD \$/bbl	Natural Gas AECO – C Spot CAD \$/MMbtu
2011	84.20	4.25
2012	88.40	4.90
2013	91.80	5.40
2014	94.80	5.90
2015	97.70	6.35
% increase thereafter	2.00%	2.00%

NOTE 4. BANK INDEBTEDNESS

As at December 31, 2010, the Company had a \$128 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 \$200 million demand debenture and a general security agreement covering all assets of the Company. The effective interest rate for 2010 for was 4.2%.

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 and the drawn portion of the credit facility. The Company is in compliance with its financial 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 and approved in October 2010. The Company's next semi-annual credit facility review is scheduled for April 2011.

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 4.5 %.

NOTE 6. ASSET RETIREMENT OBLIGATION

The asset retirement obligation is 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 \$17,592,316 at December 31, 2010 (\$14,855,867 – December 31, 2009), based on a total future liability of \$38,241,757 (\$32,779,252 – December 31, 2009). Payments to settle asset retirement obligations occur over the operating lives of the underlying assets, estimated to be mainly 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:

	Year ended December 31, 2010	Year Ended December 31, 2009
Asset retirement obligation, beginning of year	\$ 14,855,867	\$ 9,158,775
Liabilities incurred	1,213,162	239,964
Liabilities settled	(540,507)	(537,013)
Acquisitions	2,962,242	8,257,824
Dispositions	(909,757)	(27,560)
Revisions in estimated cash outflows	(1,138,983)	(2,915,432)
Accretion of asset retirement obligation	1,150,292	679,309
Asset retirement obligation, end of year	\$ 17,592,316	\$ 14,855,867

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, 2008	47,128,425	\$ 131,863,112
Shares issued pursuant to acquisition of Can-Able Energy (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)
Share issue costs net of tax	–	(67,502)
Balance, December 31, 2009	109,714,335	\$ 188,005,760
Shares issued pursuant to bought deal equity financing	18,400,000	23,000,000
Shares issued on exercise of stock options	83,333	56,507
Share issue costs net of tax	–	(1,023,117)
Balance, December 31, 2010	128,197,668	\$ 210,039,150

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). During the year ended December 31, 2010, 83,333 options were exercised for proceeds of \$51,333 (Nil – December 31, 2009).

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 working capital and total net debt (defined as the sum of current assets and current liabilities including bank indebtedness and other liabilities less financial derivatives, a non GAAP measure) 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 and there are covenants Twin Butte must comply with (note 4). The Company was in compliance with all of its financial covenants at December 31, 2010 and 2009.

The balance of share capital and total net debt as defined above at December 31, 2010 and December 31, 2009 was as follows:

Calculation of net debt to equity at:

(\$000's)	As at December 31, 2010	As at December 31, 2009
Working capital (surplus)deficiency	\$ (2,033)	\$ 5,773
Bank debt	97,705	96,342
Other liabilities	354	796
Total net debt	96,026	102,911
Shareholders' equity	\$ 187,622	\$ 165,932
Net Debt to Equity	0.51	0.62

As at December 31, 2010 the Company had \$97.7 million outstanding on its credit facility of \$128.0 million, and a working capital surplus of \$2.0 million and other liabilities of \$0.4 million, resulting in \$96.0 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 (note 2). 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. In October 2010, the revolving credit facility was increased to \$128.0 million. 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 2011.

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, 2010.

Warrants

The Company has 11,000,000 outstanding 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. There were no warrants issued in the Buffalo acquisition.

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. The reserved amount is 12,819,767 (10,971,433 – December 31, 2009). As at December 31, 2010 there were 8,560,817 (4,020,000 – 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 December 31, 2010:

	Number of Options	Weighted Average Exercise Price
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
Granted	5,921,150	1.54
Exercised	(83,333)	0.62
Forfeited	(1,297,000)	1.18
Outstanding at December 31, 2010	8,560,817	\$ 1.33

There were 1,378,005 options exercisable as at December 31, 2010 (411,667 – December 31, 2009) at an average exercise price of \$0.95 per share (\$1.24 – December 31, 2009).

Exercise Price	Options Outstanding					
	December 31, 2010			December 31, 2009		
	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	1,275,000	0.68	3.32	1,630,000	0.66	4.31
\$ 0.93 – 1.24	1,808,667	1.02	3.29	2,217,000	1.01	4.39
\$ 1.31 – 1.51	3,476,500	1.34	4.35	–	–	–
\$ 1.52 – 3.65	2,000,650	1.98	4.86	173,000	2.67	3.25
	8,560,817	1.33	4.09	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.

	Year ended December 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	905,134	379,498
Stock based compensation for stock options cancelled	–	1,218,307
Stock based compensation for stock options forfeited	(95,905)	(160,868)
Stock based compensation for stock options exercised	(5,174)	–
Contributed surplus balance, end of period	\$ 4,988,842	\$ 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 Year 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	\$ 0.59	\$ 0.30

Loss Per Share

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

	Year ended December 31	
	2010	2009
Weighted average number of basic shares	126,546,454	62,392,250
Effect of dilutive securities		
Employee stock options	–	–
	126,546,454	62,392,250

All of the issued stock options were excluded from the calculation of diluted weighted average shares outstanding for the years ended December 31, 2010 and 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:

	2010	2009
Loss before taxes	\$ (1,295,157)	\$ (17,507,484)
Statutory income tax rate	28%	29%
Expected income taxes	(362,644)	(5,077,170)
Stock based compensation	226,584	416,712
Change in expected tax rate	75,678	(86,998)
Other	(87,257)	(71,734)
Future income tax recovery	\$ 147,639	\$ 4,819,190

Future Income Taxes

	2010	2009
Property, plant, and equipment	\$ (5,973,000)	\$ (6,468,184)
Asset retirement obligations	4,398,100	3,714,000
Share issue cost	862,600	889,400
Eligible scientific research & experimental development expenditures	3,656,065	3,625,300
Non-capital loss carryforwards	4,783,635	5,425,500
Valuation allowance	(4,783,635)	(4,783,635)
Future income tax asset	\$ 2,943,765	\$ 2,402,381

As at December 31, 2010, the Company has tax deductions of approximately \$310.4 million that are available to shelter future taxable income. Included in the above is \$16.2 million in non-capital refreshed losses that expire in 2023.

NOTE 9. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2010, the Company incurred costs totaling \$3.0 million (\$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 December 31, 2010, the Company had \$1.1 million (nil – December 31, 2009) included in accounts payable and accrued liabilities related to these transactions.

NOTE 10. FINANCIAL INSTRUMENTS

Financial assets and liabilities are comprised of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, other liabilities, bank indebtedness and derivative assets and liabilities. Derivative assets and liabilities arise from the use of non-financial commodity and interest rate contracts and are accounted for as derivative instruments.

Assets and Liabilities that are measured at fair value are classified into levels, reflecting the method used to make the measurements. Level 1 fair value measurements are based on unadjusted quoted market prices. Level 2 fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices. The fair value of the derivative financial instruments are based on an approximation of the amounts that would have been paid to, or received from, counterparties to settle the transactions outstanding as at the reporting date with reference to prices and market values provided by independent sources. The actual amounts realized may differ from these estimates. Level 3 fair value measurements are based on observable information. Assessment of the significant of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

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 a floating interest rate.

Financial derivative assets and liabilities are recorded at their estimated fair value based on the mark-to-market method of accounting, using third-party market indications and forecasts. The estimated fair value of financial assets and liabilities were as follows:

	As at December 31, 2010		As at December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
(\$000's)				
Financial Assets				
Financial Derivative assets	\$ 3,946	\$ 3,946	\$ –	\$ –
Accounts receivable	27,358	27,358	20,759	20,759
Deposits	2,453	2,453	3,182	3,182
Financial Liabilities				
Financial Derivative liabilities	\$ 6,633	\$ 6,633	\$ 1,224	\$ 1,224
Accounts payable and accrued liabilities	27,779	27,779	29,713	29,713
Bank indebtedness	97,705	97,705	96,242	96,242
Other liabilities	354	354	796	796

Net Derivative Assets and Liabilities

Summary of Unrealized Derivative Positions

(\$000's)	As at December 31, 2010			As at December 31, 2009		
	Asset	Liability	Net	Asset	Liability	Net
Commodity Prices						
Natural gas	\$ 3,946	\$ –	\$ 3,946	\$ –	\$ (231)	\$ (231)
Crude oil	–	(6,628)	(6,628)	–	(850)	(850)
Interest Rate						
Interest rate	–	(4)	(4)	–	(143)	(143)
Total Fair Value	\$ 3,946	\$ (6,632)	\$ (2,686)	\$ –	\$ (1,224)	\$ (1,224)

Net Fair Value of Commodity Price Positions at December 31, 2010

Crude Oil Sales Price Derivatives

Daily barrel ("bbl") quantity	Remaining term of contract	Fixed price per bbl (CAD)	Written Fixed call price per bbl WTI	Fair market value \$ 000's
300	January 1 to December 31, 2011	\$ 92.04		\$ (188)
200	January 1 to December 31, 2011	\$ 88.00		\$ (418)
200	January 1 to December 31, 2011	\$ 89.40		\$ (317)
1000	January 1 to December 31, 2011		US\$ 95.00	\$ (2,366)
1000	January 1 to December 31, 2012		US\$ 100.00	\$ (3,339)
Crude oil fair value position				\$ (6,628)

Natural Gas Sales Price Derivatives

Daily giga-joule ("GJ") quantity	Remaining term of contract	Fixed price per GJ (AECO Daily)	Written Fixed call price per GJ (AECO Monthly)	Fair Market value \$ 000's
3,000	January 1, 2011 to December 31, 2011		\$ 7.00	\$ (7)
6,000	January 1, 2011 to October 31, 2011	\$ 5.90		\$ 3,953
Natural gas fair value position				\$ 3,946

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, 2010 the marked-to-market value of the Company's fixed/floating interest rate derivative contract was a liability of \$4,400.

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 dollars with respect to crude oil sales price derivative agreements that are based in United States dollars.

The following table illustrates the effects of movement in commodity prices on net income due to changes in the fair value of risk management contracts in place at December 31, 2010 and 2009. The December 31, 2009 effects are presented for comparison purposes only and do not represent actual changes. The sensitivity is based on a WTI oil prices, AECO natural gas prices and interest rates, and would have been as follows:

Net loss change (\$000's)	2010	2009
Impact on the fiscal year 2010 and 2009		
Change in WTI oil price by US \$1.00 per barrel	590	256
Change in AECO natural gas price by Cdn \$0.10 per mcf	510	329
Change in interest rate by 1 percent	605	328

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, 2011, \$3.4 million or 13.0% of accounts receivable are outstanding for 90 days or more (December 31, 2010 – \$0.6 million or 3.0% 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, 2011 (December 31, 2010 – \$0.4 million).

As at December 31, 2010, the counter-party with which the Company maintains its non-financial derivative contracts 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, 2010, the Company had available undrawn bank credit facilities from the demand revolving operating credit facility in the amount of \$30.3 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, 2011 and the Company will manage its capital spending to stay within its expected and revised borrowing base limits for 2011.

As at December 31, 2010 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	\$ 27,779	\$ –
Other liabilities	–	354
Financial derivatives	3,293	3,340
	\$ 31,072	\$ 3,694

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. The facility is revolving, and is reviewed at each semi-annual review by the syndicate (note 4).

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.

As at December 31, 2010, the Company had contractual obligations and commitments for base office rent and equipment as follows:

2011	1,161,387
2012	763,517

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

Crude Oil Sales Price Derivative Contract

Subsequent to December 31, 2010 the Company entered into the following crude oil sale price derivative:

Daily barrel ("bbl") quantity	Term of contract	Fixed Price per bbl (WTI) Cdn
300	February 1, 2011 to December 31, 2011	95.05
300	March 1, 2011 to December 31, 2011	98.05
300	January 1, 2012 to December 31, 2012	100.45

In addition 4.8 million warrants were exercised and converted to 3.3 million Twin Butte shares at \$2.14 equating to \$7.1 million. The Company also sold a property for \$10.4 in the first quarter.

CORPORATE INFORMATION

OFFICERS

Jim Saunders
President and Chief Executive Officer

Bob Bowman
Vice President, Operations

Neil Cathcart
Vice President, Exploration

Mike Fabi
Vice President, Engineering

Bruce W. Hall
Chief Operating Officer

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) (3)}

John Brussa

Jim Saunders

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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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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