TWIN BUTTE
ENERGY LTD.

Q2 2012

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012

HIGHLIGHTS

Twin Butte Energy Ltd. ("Twin Butte" or the "Company") (TSX: TBE) is pleased to announce its financial and operational results for the three and six months ended June 30, 2012.

	Three months ended June 30			Six months ended June 30		
($ thousands, except per share amounts)	**2012**	2011	% Change	**2012**	2011	% Change
FINANCIAL						
Petroleum and natural gas sales	**70,173**	38,748	81%	**142,670**	70,476	102%
Funds flow (1)	**33,762**	17,686	91%	**60,162**	30,543	97%
Per share basic	**0.18**	0.13	38%	**0.32**	0.23	39%
Per share diluted	**0.17**	0.13	31%	**0.32**	0.23	39%
Net income (loss)	**29,340**	12,765	130%	**44,323**	10,504	322%
Per share basic	**0.15**	0.10	52%	**0.23**	0.08	187%
Per share diluted	**0.15**	0.09	50%	**0.23**	0.08	187%
Dividends paid	**8,649**	–	–	**17,270**	–	–
Capital expenditures	**9,971**	19,788	-50%	**25,415**	37,136	-32%
Capital acquisitions with E&E	**14,046**	–	–	**12,846**	–	–
Capital dispositions	**(442)**	(143)	209%	**(6,770)**	(11,643)	-158%
Net debt (2)	**124,459**	75,960	64%	**124,459**	75,960	64%
OPERATING						
Average daily production						
Crude oil (bbl per day)	**11,415**	4,377	161%	**10,801**	4,198	157%
Natural gas (Mcf per day)	**15,063**	17,380	-13%	**15,601**	18,645	-16%
Natural gas liquids (bbl per day)	**267**	282	-5%	**309**	276	12%
Barrels of oil equivalent (boe per day, 6:1)	**14,193**	7,556	88%	**13,710**	7,582	81%
Average sales price						
Crude oil ($ per bbl)	**62.83**	75.10	-16%	**66.87**	69.06	-3%
Natural gas ($ per Mcf)	**2.10**	4.21	-50%	**2.22**	4.13	-46%
Natural gas liquids ($ per bbl)	**83.29**	84.99	-2%	**87.10**	81.52	7%
Barrels of oil equivalent ($ per boe, 6:1)	**54.33**	56.36	-4%	**57.18**	51.36	11%
Operating netback ($ per boe) (3)						
Petroleum and natural gas sales	**54.33**	56.36	-4%	**57.18**	51.36	11%
Realized (loss) gain on derivative instruments	**6.91**	(0.24)	2979%	**4.59**	0.48	856%
Royalties	**(12.84)**	(9.98)	29%	**(13.65)**	(9.36)	46%
Operating expenses	**(17.19)**	(14.99)	15%	**(17.88)**	(14.86)	20%
Transportation expenses	**(2.26)**	(1.63)	39%	**(2.36)**	(1.75)	35%
Operating netback	**28.95**	29.52	-2%	**27.88**	25.87	8%
Wells drilled						
Gross	**16.0**	34.0	-53%	**48.0**	71.0	-32%
Net	**14.5**	20.1	-28%	**36.2**	47.6	-24%
Success (%)	**93**	97	-4%	**97**	97	0%
COMMON SHARES						
Shares outstanding, end of period	**192,458,098**	135,295,737	42%	**192,458,098**	135,295,737	42%
Weighted average shares outstanding – diluted	**193,165,826**	137,411,968	41%	**190,327,811**	135,526,900	40%

(1) Funds flow from operations and funds flow from operations netback are non-IFRS measures that represent the total and the average per boe, respectively, of cash provided by operating activities, before adjusting for changes in non-cash working capital items and expenditures on decommissioning liabilities. This includes one time transaction costs of $2 million.

(2) Net debt is a non-IFRS measure representing the total of bank indebtedness, accounts payables and accrued liabilities, cash dividend payable, less accounts receivables, deposits and prepaids.

(3) Operating netback is a non-IFRS measure calculated as the average per boe of the Company's oil and gas sales, realized gains on derivatives, less royalties, operating and transportation expenses.

REPORT TO SHAREHOLDERS

HIGHLIGHTS OF TWIN BUTTE'S HIGHLY SUCCESSFUL SECOND QUARTER OF 2012 ARE AS FOLLOWS:

> Recorded quarterly production of 14,193 boe per day, an increase of 88 percent over Q2 2011 and a 34 percent increase in production per share from the same period of 2011.

> Increased quarterly liquids production weighting to 82 percent from 62 percent in Q2 2011.

> Generated record quarterly funds flow of $33.8 million, a 91 percent increase over Q2 2011. On a per share basis, funds flow increased by 38 percent year over year to $0.18 for the quarter.

> Executed a net capital (net of dispositions) program of $9.5 million which included the drilling of 16 gross (14.5 net) wells at a 93 percent success rate.

> Completed a strategic $14 million acquisition of producing assets within our core Lloydminster heavy oil area. The acquisition included approximately 320 boe per day of production as well as over 20 net sections of prospective acreage with four recently shot three dimensional seismic surveys.

> Announced the strategic acquisition of private heavy oil producer Avalon Exploration which is scheduled to close in late August. The Acquisition materially increases the size and scope of heavy oil lands and opportunities for Twin Butte.

> Paid $8.5 million in dividends ($0.015/share/month) reflecting a yield of 7.4% based on Twin Butte's June 30 closing price of $2.42

> Maintained a strong balance sheet with quarter end net debt of $124.5 million on a credit facility of $205 million. Achieved an all in payout ratio of 95 percent with free funds flow (funds flow less dividend and capital) of $1.7 million for the quarter.

CORPORATE

Twin Butte's second quarter financial and operating results continue to demonstrate the Company's ability to pay a sustainable dividend and maintain a strong balance sheet while completing a disciplined efficient capital plan. Our strategy of delivering shareholders long term returns comprised of both income and moderate production growth while maintaining conservative payout ratios is working and is anticipated to provide shareholders long term positive gains.

On June 25 Twin Butte announced the strategic acquisition of a private company, Avalon Exploration. Avalon has current production of 1,900 bbls per day of conventional heavy oil as well as over 85,000 net of undeveloped acres in the Lloydminster area, effectively doubling Twin Butte's undeveloped heavy oil lands in this area. Twin Butte will also receive a significant seismic data base of 556 km of proprietary data and 2,271 km of trade data. The acquisition materially increases the size and scope of heavy oil lands and opportunities for Twin Butte and further establishes Twin Butte as a significant operator in the area. Twin Butte management has a successful history of operating and growing heavy oil production and has extensive operational experience within the Lloydminster heavy oil fairway which will ensure a seamless transition and ultimately generate numerous operational efficiencies. As a larger, stronger company, Twin Butte will use its financial flexibility to capitalize on its expanded low risk drilling inventory. In addition the Company's credit facility will be increased to $240 million from the current $205 million upon closing. It is anticipated that net debt following the closing of the transaction will be approximately $160 million.

FINANCIAL

Consistent with the Company's expanded production base and increased liquids weighting, quarterly funds flow from operations reached a record $33.8 million in the quarter ($135.2 million annualized). This level of funds flow should provide shareholders comfort that our yearly dividend of approximately $36 million ($0.015/share/month) and our capital plan of $70 million is easily financed with our funds flow. After deducting Q2 capital and dividends of $23.6 and $8.5 million respectfully the excess cash of $1.7 million was used for debt reduction. Twin Butte's philosophy remains that balance sheet strength is paramount and will ensure the long term sustainability of the dividend. Quarter-end net debt of $124.5 million represented 0.9 times second quarter annualized cash flow.

Twin Butte remains active on the hedging front to offset the continued volatility in both oil and gas reference prices as well as price differential from WTI to the WCS Canadian heavy index. Twin Butte's 2012 cash flow forecast is well protected with our hedging program. Approximately 84 percent of our current gas production is hedged at $4.21/GJ at AECO for the remainder of 2012. A recent increase in spot gas prices has the Company evaluating the restart of gas production that was shut in during the first quarter.

Approximately 57 percent of our estimated oil production is hedged for the second half of 2012 at a WCS equivalent of approximately $81 Cdn per bbl. With the majority of the Company's oil production being heavy oil priced off of the WCS benchmark we will endeavor to try and align our hedges to this reference price where possible.

We will be disciplined on hedging for 2013 as well with a recent transaction hedging approximately 60 percent of our anticipated gas production for 2013 at $4.50 per GJ at AECO. We now have approximately 18 percent of our estimated oil production hedged for 2013 at a WTI price of $94.00, and a further 8 percent hedged at a WCS price of $80.00.

DIVIDEND REINVESTMENT PLAN (THE "DRIP")

The Board of Directors have approved a DRIP effective immediately, allowing eligible shareholders to participate in the DRIP commencing with dividends to be paid on September 17, 2012 to shareholders of record as of August 31, 2012.

A registered shareholder who wishes to enroll in the DRIP for a particular dividend to be paid by Twin Butte must deliver a completed Authorization Form to Valiant Trust Company (the "Plan Agent"), before 3:00 p.m. (Calgary time) on the business day prior to the record date for such dividend. Beneficial shareholders who wish to participate in the DRIP should contact the broker or other Nominee through which their Common Shares are held to provide appropriate enrollment instructions and to ensure any deadlines or other requirements that such broker or Nominee may impose or be subject to are met. Authorization Forms for both registered and beneficial shareholders received after the applicable enrolment deadline will be accepted but only effective for subsequent dividends.

A complete copy of the DRIP is available on Twin Butte's website at www.twinbutteenergy.com or by calling the Manager of the Plan Agent, at (403) 233-2801. Shareholders should carefully read the complete text of the DRIP before making any decisions regarding their participation in the DRIP.

OPERATIONS

During the second quarter of 2012 Twin Butte drilled 16 gross (14.5 net) wells with a 93 percent success rate demonstrating the predictable and repeatable nature of the Company's drilling inventory which currently is estimated to be over 600 net conventional heavy oil wells post the Avalon acquisition. All wells were drilled within the Company's core heavy oil fairway where Twin Butte anticipates spending one hundred percent of its 2012 capital.

At Frog Lake, the Company's most active area for the past two years, drilling continued in Q2 with 9 gross (7.5 net) wells drilled successfully. The Company's focus in 2012 and beyond at Frog Lake will be on the Rex formation which has provided very consistent results for the past two years. Two step out or pool extension wells were successfully drilled in Q2, and an additional four in Q3, which has significantly expanded this play. A three dimensional seismic survey is planned over these extension wells for later this year to help define the long term opportunity. A recent farm in arrangement for five sections of land will continue to enhance the Company's drilling inventory allowing profitable growth to continue in the area for some time.

The Company continues to be active in the greater Lloydminster area at Silverdale, and Primate where the remainder of the Q2 wells were drilled. These areas account for the majority of the remainder of Twin Butte's conventional heavy oil drilling inventory pre the Avalon acquisition. Although these areas have slightly different producing characteristics than Frog Lake, they offer the same predictability and drilling repeatability.

The Company continued to enhance its water disposal and production infrastructure in the Lloydminster area in Q2 which has allowed production to be optimized and corporate operating costs to remain below area industry average.

In April the Company completed a 320 bbl per day acquisition to the south west of Frog Lake which added over twenty 100 percent working interest sections of undeveloped land partially covered with four, recently shot, three dimensional seismic surveys. These lands complement our existing area lands and early evaluations indicate at least 20 drillable locations on the lands. Twin Butte will be drilling its first wells on the subject lands over the next few weeks.

This and the Avalon acquisition are consistent with Twin Butte's historic strategy of acquiring quality assets, with large resource potential within focus areas where Twin Butte has expertise.

Production has grown materially from the first quarter rate of 13,228 boe per day to 14,198 boe per day in Q2. This growth is partially attributable to the 320 bbl per day acquisition completed in April but is primarily due to strong flush production from the Company's successful first quarter drilling program. Production from these wells has now stabilized which has led to a small production decrease going into Q3. Drilling results from the Q2 drilling program will largely be recognized in Q3 as wet operating conditions have prevented timely completion of some of the new wells. Although the Q3 capital plan is well under way, continued wet operating conditions have delayed some of our early Q3 drilling.

In late June, the Company was notified by a third party gas processer that a planned 2013 facility turnaround was being accelerated into mid-2012. Once the turnaround commenced the operator notified Twin Butte that as a result of a fire during turnaround operations the planned 3 week operation will be extended to four months. This will negatively impact Twin Buttes Pincher Creek production by 525 boe per day (75 percent gas) from late June till early November or decrease annual 2012 Corporate production by approximately 175 boe per day.

Current Company production is 13,200 boe per day excluding the Pincher Creek and Avalon volumes. Including volumes from the Avalon transaction Twin Butte now anticipates averaging approximately 14,150 boe's per day in 2012. Based on a $90 WTI and a $69 WCS price for the second half of 2012 (currently below strip pricing) Twin Butte anticipates 2012 cash flow to exceed $120 million.

The Company's original capital plan of $66 million will increase marginally with the Avalon transaction to approximately $70 million. Based on the above cash flow and current monthly dividends of $0.015 per share total payout ratio for 2012 will be approximately 86 percent, one of the lowest in the industry.

OUTLOOK

Twin Butte is in an enviable position in that it has a strong balance sheet, a predictable production profile and a current inventory of over 600 net heavy oil drilling locations. These wells generate return on investment in the top 10 percentile of all plays in North America and the Company believes its current sizable drilling inventory has the ability to fuel the Company's dividend and moderate growth strategy for years to come.

This will allow a sustained pace of repeatable development drilling and disciplined capital spending to maximize capital efficiencies, economic returns and minimize payout times, providing visible sustainability to Twin Butte's dividend and anticipated Company growth.

Twin Butte anticipates future quarters will show similar levels of capital efficiency, dividend sustainability and a very disciplined approach as the Company progresses its business plan. We are confident that the combination of a sustainable dividend and moderate per share growth will continue to attract investor interest. Management remains committed to continually enhancing the Company's asset base through a combination of organic growth and strategic acquisitions.

ABOUT TWIN BUTTE

Twin Butte is a value oriented, intermediate producer with a significant and growing scalable and repeatable drilling inventory focused on large original oil in-place conventional heavy oil exploitation. With a stable low decline production base the Company is well positioned to live within cash flow while providing shareholders with a sustainable dividend and moderate per share production growth potential over the long term.

(signed)

Jim Saunders
President and C.E.O.

August 14, 2012

FORWARD-LOOKING STATEMENTS

In the interest of providing Twin Butte's shareholders and potential investors with information regarding Twin Butte and Avalon, including management's assessment of the future plans and operations of Twin Butte, certain statements contained in this report constitute forward-looking statements or information (collectively "forward-looking statements") within the meaning of applicable securities legislation. Forward-looking statements are typically identified by words such as "anticipate", "continue", "estimate", "expect", "forecast", "may", "will", "project", "could", "plan", "intend", "should", "believe", "outlook", "potential", "target" and similar words suggesting future events or future performance. In particular but without limiting the foregoing, this report contains forward-looking statements pertaining to the following: future dividend levels; the volumes and estimated value of Twin Butte's oil and natural gas reserves; the life of Twin Butte's reserves; the volume and product mix of Twin Butte's oil and natural gas production; future oil and natural gas prices; future operational activities; and future results from operations and operating metrics, including future production growth and net debt. In addition, statements relating to "reserves" are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and can be profitably produced in the future.

With respect to forward-looking statements contained in this report, we have made assumptions regarding, among other things: future capital expenditure levels; future oil and natural gas prices and differentials between light, medium and heavy oil prices; results from operations including future oil and natural gas production levels; future exchange rates and interest rates; our ability to obtain equipment in a timely manner to carry out development activities; our ability to market our oil and natural gas successfully to current and new customers; the impact of increasing competition; our ability to obtain financing on acceptable terms; and our ability to add production and reserves through our development and exploitation activities. Although Twin Butte believes that the expectations reflected in the forward looking statements contained in this report, and the assumptions on which such forward-looking statements are made, are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned not to place undue reliance on forward-looking statements included in this report, as there can be no assurance that the plans, intentions or expectations upon which the forward-looking statements are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur, which may cause Twin Butte's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things, the following: volatility in market prices for oil and natural gas; general economic conditions in Canada, the U.S. and globally; and the other factors described under "Risk Factors" in Twin Butte's most recently filed Annual Information Form available in Canada at www.sedar.com. Readers are cautioned that this list of risk factors should not be construed as exhaustive.

The forward-looking statements contained in this report speak only as of the date of this report. Except as expressly required by applicable securities laws, Twin Butte does not undertake any obligation to publicly update or revise any forward looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this report are expressly qualified by this cautionary statement.

Barrels of Oil Equivalent

Barrels of oil equivalents (boe) may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf: 1 bbl (barrel) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In addition, as the value ratio between natural gas and crude oil based on the current prices of natural gas and crude oil is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indicated value.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as of August 14, 2012

INTRODUCTION

The following Management Discussion and Analysis ("MD&A") is management's assessment of Twin Butte Energy Ltd's ("Twin Butte" or the "Company") financial and operating results and should be read in conjunction with the message to shareholders and the interim financial statements of the Company for the three months ended June 30, 2012 and the audited financial statements and MD&A for the year ended December 31, 2011. This MD&A is presented in Canadian dollars (except where otherwise noted). Additional information relating to the Company, including the Company's Annual Information Form can be found on www.sedar.com.

The Company's principal activity is the acquisition of, exploration for and the development and production of petroleum and natural gas properties in Western Canada.

Non-IFRS Measures – Certain measures in this document do not have any standardized meaning as prescribed by non-IFRS such as operating netback, funds flow, funds flow from operations, funds flow per share, net debt and capitalization and, therefore, are considered non-IFRS 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 IFRS and Previous GAAP as an indicator of the Company's performance. All references to funds flow from operations or funds flow throughout this report are based on cash flow from operating actives before changes in non-cash working capital. The Company also presents funds flow from operations per share whereby per share amounts are calculated using weighted average shares outstanding consistent with the calculation of earnings per share. These measures may not be comparable to similar measures presented by other issuers. These measures have been described and presented in this document in order to provide shareholders and potential investors with additional information regarding the Company's liquidity and its ability to generate funds to finance its operations. Management's use of these measures has been disclosed further in this document as these measures are discussed and presented.

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

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 equivalent barrels at the ratio of six thousand cubic feet of gas to one barrel of oil.

FORWARD-LOOKING STATEMENTS

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.

All statements, other than statements of historical fact, which address activities, events, or developments that Twin Butte expects or anticipates will or may occur in the future, are forward-looking statements within the meaning of applicable securities laws. These statements are subject to certain risks and uncertainties, and may be based on estimates or assumptions that could cause actual results to differ materially from those anticipated or implied.

Further, the forward-looking statements contained in this MD&A are made as of the date hereof, and the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, as a result of new information, future events or otherwise, except as may be required by applicable securities laws. The Company's forward-looking statements are expressly qualified in their entirety by this cautionary statement. Certain risk factors associated with these forward-looking statements include, but are not limited to, the following:

- Fluctuations in natural gas, condensate, NGL's, and crude oil production levels;
- Twin Butte's inability to successfully market its natural gas, condensate, NGL's, and crude oil;
- Lower than expected market prices for natural gas, condensate, NGL's, and crude oil;
- Adverse changes in foreign currency exchange rates and/or interest rates;
- Uncertainties associated with estimating reserves;
- Competition for capital, asset acquisitions, undeveloped lands, and skilled personnel;
- Operational hazards characteristic of the oil and gas industry such as: geological and drilling problems; and well production, pipeline, and mechanical difficulties;
- Lower than envisaged success in the finding and development of reserves and/or higher than expected costs;
- Adverse changes in general economic conditions in Western Canada, Canada more generally, North America or globally;
- Adverse weather conditions;
- The inability of Twin Butte to obtain financing on favorable terms, or at all;
- Adverse impacts from the actions of competitors;
- Adverse impacts of actions taken and/or policies established by governments or regulatory authorities including changes to tax laws, incentive programs, royalty calculations, and environmental laws and regulations; and
- Reliance on natural gas and NGL processing, pipeline, and storage infrastructure not operated by Twin Butte, the availability of which is essential to Twin Butte's sales and marketing activities.

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.

PETROLEUM AND NATURAL GAS SALES

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

	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Average Twin Butte Realized Commodity Prices (1)				
Heavy oil ($ per bbl)	**61.93**	71.94	**65.74**	65.92
Light & medium oil ($ per bbl)	**75.67**	88.55	**81.35**	81.20
Natural gas ($ per mcf)	**2.10**	4.21	**2.22**	4.13
Natural gas liquids ($ per bbl)	**83.29**	84.99	**87.10**	81.52
Barrels of oil equivalent ($ per boe, 6:1)	**54.33**	56.36	**57.18**	51.36
(1) The average selling prices reported are before realized derivative instrument gains/losses and transportation charges.				
Benchmark Pricing				
WTI crude oil (US$ per bbl)	**93.49**	102.56	**98.21**	98.33
Edmonton crude oil (Cdn$ per bbl)	**84.42**	103.58	**88.56**	98.99
WCS crude oil (Cdn $ per bbl)	**72.23**	82.96	**77.48**	77.01
AECO natural gas (Cdn$ per mcf) (2)	**1.80**	3.68	**1.92**	3.64
Exchange rate – (US$/ Cdn$)	**1.01**	1.03	**1.00**	1.02
(2) The AECO natural gas price reported is the average daily spot price.				
Sales				
$000's				
Heavy oil	**60,127**	23,202	**119,882**	39,781
Light & medium oil	**5,137**	6,713	**11,575**	12,692
Natural gas	**2,885**	6,654	**6,317**	13,924
Natural gas liquids	**2,024**	2,179	**4,896**	4,079
Total petroleum and natural gas sales	**70,173**	38,748	**142,670**	70,476
Average Daily Production				
Heavy oil (bbl/day)	**10,669**	3,544	**10,019**	3,334
Light & medium oil (bbl/day)	**746**	833	**782**	864
Natural gas liquids (bbl/day)	**267**	282	**309**	277
Natural gas (mcf/day)	**15,063**	17,380	**15,601**	18,645
Total (boe/d)	**14,193**	7,556	**13,710**	7,582
% oil and liquids production	**82%**	62%	**81%**	59%

Sales for the three months ended June 30, 2012 were $70.2 million, as compared to $38.7 million for the three months ended June 30, 2011 representing an increase of $31.5 million or 81%. This increase in revenue is attributed primarily to increased volumes from the Emerge Oil & Gas Inc. ("Emerge") acquisition where the acquired operations are included from January 10, 2012. Production grew from 7,556 boe/d in the three months ended June 30, 2011 to 14,193 boe/d for the three months ended June 30, 2012, supplemented by drilling success. The average realized commodity price before derivative instruments decreased 4% to $54.33 during the second quarter 2012, down from $56.36 in the three months ended June 30, 2011, mainly due to decreases in both oil prices and natural gas prices. Oil and liquids weighting increased to 82% from 62%, as a result of the 161% growth in oil production volumes. The weighting has changed mainly due to the Company's drilling program and the acquisition of Emerge, which has increased the percentage of oil production in the Company and has been one of the major factors in the total sales per boe increase despite lower or flat gas pricing from the comparative periods. The company has not been targeting any gas based drilling and as such has seen a steady decline in natural gas production.

Revenues for the six months ended June 30, 2012 were $142.7 million, as compared to $70.5 million for the six months ended June 30, 2011, representing an increase of $72.2 million or 102%. This increase in revenue is again attributed to production increases of 81% mainly from the Emerge acquisition, commodity price increase of 11%, and the increase in oil and liquids weighting from 59% to 81%. Production increased from 7,582 boe/d in 2011 to 13,710 boe/d in 2012. The average realized commodity price before hedging increased from $51.36 per boe in 2011 to $57.18 in 2012

ROYALTIES

	Three months ended June 30		Six months ended June 30	
($ 000's)	**2012**	2011	**2012**	2011
Royalty breakdown				
Heavy oil	**13,118**	5,338	**27,624**	9,285
Light & medium oil	**2,634**	1,200	**5,015**	2,547
Natural gas	**348**	(391)	**(55)**	(252)
NGL's	**483**	716	**1,473**	1,264
Total royalties	**16,583**	6,863	**34,057**	12,844
% of P&NG sales	**24%**	18%	**24%**	18%
per boe	**$ 12.84**	$ 9.98	**$ 13.65**	$ 9.36

Royalties for the three months ended June 30, 2012 were $16.6 million, as compared to $6.9 million for the three months ended June 30, 2011. Royalties on an absolute basis increased as a result of increased production volumes and sales as a result of the Emerge acquisition. Liquids production comprised 82% of volumes for the second quarter 2012 as compared to 62% in 2011. As a percentage of sales, the average royalty rate for the second quarter of 2012 was 24% compared to 18% for the comparative period of 2011. The rate has increased as the Company's oil weighting and oil prices have increased significantly. Oil and liquids royalty rates were approximately 25% for the quarter, while gas royalties were approximately 12%.

Royalties for the six months ended June 30, 2012 were $34.1 million, as compared to $12.8 million for the six months ended June 30, 2011. Royalties on an absolute basis increased with increased production volumes as a result of both the Emerge acquisition and drilling success. With this volume growth we have seen the liquids production move to 81% of total volumes up from 59% in 2011. As a percentage of revenues, the average royalty rate for the six month period ended June 30, 2012 was 24% compared to 18% for the comparative period of 2011. Oil and liquids royalty rates were approximately 25% for the six months of 2012 while natural gas rates were approximately nil% of sales, due to the GCA credits, as compared to 24% and (-2)% respectively in 2011. With the higher oil prices compared to gas there is a higher royalty rate on liquids based production.

OPERATING & TRANSPORTATION EXPENSES

Operating expenses were $22.2 million or $17.19 per boe for the quarter ended June 30, 2012 as compared to $10.3 million or $14.99 per boe for the three months ended June 30, 2011. The increase on an absolute dollar basis is mainly attributable to the increased production from the Emerge acquisition and our drilling program. While we have been able to keep costs down at Frog Lake through initiatives summarized below we are seeing cost pressure in some of our other areas where we are less active. Increased costs in the quarter came from service rig, pump jack maintenance, trucking and vacuum truck costs. The Emerge properties generally have higher operating costs than Twin Butte's historical costs, but overall are within our expected range.

Operating expenses were $44.6 million or $17.88 per boe for the six months ended June 30, 2012 as compared to $20.4 million or $13.92 per boe for the six months ended June 30, 2011. The increase on an absolute dollar basis is mainly attributable to the production growth from acquisitions in 2012 and our internal drilling program.

The Company continues to work on methods to increase the netback received by controlling operating costs through putting in our own water disposal facilities, fuel gas systems to use our own gas for heating and power, and various methods to cut down on trucking charges by further cleaning the oil at our wellsites. The higher average corporate operating costs are largely reflective of a number of high operating-cost gas properties where the Company is not spending funds in the current low gas price environment.

Operating & Transportation Expense	Three months ended June 30,				Six months ended June 30,			
(000's except per boe amounts)	**2012**	**$ per boe**	2011	$ per boe	**2012**	**$ per boe**	2011	$ per boe
Operating expenses	**22,197**	**17.19**	10,306	14.99	**44,607**	**17.88**	20,395	14.86
Transportation	**2,914**	**2.26**	1,121	1.63	**5,901**	**2.36**	2,399	1.75
Total	**25,111**	**19.45**	11,427	16.62	**50,508**	**20.24**	22,794	16.61

Transportation expenses for the three months ended June 30, 2012 were $2.9 million or $2.26 per boe compared to $1.1 million or $1.63 per boe in the prior year comparative quarter. The increase on an absolute basis is mainly attributable to the Emerge acquisition and production growth from our drilling program , while on a boe basis the cost has increased slightly mainly due to the heavier oil weighting.

Transportation expenses for the six months ended June 30, 2012 were $5.9 million or $2.36 per boe compared to $2.4 million or $1.59 per boe in the prior period comparative period. The increase on an absolute basis is mainly attributable to the production growth from acquisitions in 2012 and our internal drilling program, while on a boe basis the cost has increased mainly due the heavier oil weighting.

On a combined basis for the second quarter we have higher operating and transportation costs of $19.45 per boe as compared to $16.62 per boe for the comparable period of 2011. This increase of 17% is due to inflationary pressures in the oil and gas sector and the increased heavy oil weighting from the acquisition and our drilling program.

GENERAL AND ADMINISTRATIVE ("G&A") EXPENSES

	Three months ended June 30		Six months ended June 30	
($ 000's)	**2012**	2011	**2012**	2011
G&A expenses	**3,242**	3,012	**7,160**	5,750
Recoveries	**(452)**	(597)	**(1129)**	(1126)
Capitalized G&A expenses	**(766)**	(675)	**(1564)**	(1289)
Total net G&A expenses	**2,024**	1,740	**4,467**	3,335
Total net G&A expenses ($/boe)	**$ 1.57**	$ 2.53	**$ 1.79**	$ 2.43
Total Emerge transaction expenses	**264**	–	**2,224**	–
Transaction expenses ($/boe)	**$ 0.20**	–	**$ 0.89**	–

General and administrative expenses, net of recoveries and capitalized G&A, were $2.0 million or $1.57 per boe for the current quarter as compared to $1.7 million or $2.53 per boe in the prior year comparative quarter. General and administrative expenses, net of recoveries and capitalized G&A, were $4.5 million or $1.79 per boe for the six month period ended June 30, 2012 as compared to $3.3 million or $2.43 per boe in the prior period comparative period.

While total G&A costs have increased for the year due to the Emerge acquisition, due to additional staff and costs of running the larger operation, on a per barrel basis we have seen a decline from $2.43 to $1.79 per boe.

The Company also incurred one time transaction costs for the Emerge acquisition totaling $2.2 million including filing, broker, legal and bank fees.

SHARE-BASED PAYMENT EXPENSE

Share-based Payments	Three months ended June 30,				Six months ended June 30,			
(000's except per boe amounts)	**2012**	**$ per boe**	2011	$ per boe	**2012**	**$ per boe**	2011	$ per boe
Total	**1,101**	**0.85**	352	0.51	**1,946**	**0.78**	545	0.40

The Company implemented a share award incentive plan effective January 10, 2012 along with the closing of the Emerge acquisition and the conversion to a dividend paying company. All employees and consultants that held outstanding stock options were provided an opportunity to cancel their option agreements and receive share awards or continue to hold their option agreements. Share awards granted as replacement for cancelled options were provided with the same vesting schedule as the options they replaced (4,638,938 share awards replaced 8,739,536 options).There will be no further stock options granted and the remaining outstanding options will be either exercised or forfeited. Share awards may be granted to employees, officers, directors and service providers where and Board has reserved up to 10% of outstanding Common Shares less outstanding options for issuance to eligible participants. All share awards are managed under the Share Award Incentive Plan and have a maximum term of 5 years and vest in equal one-third increments on each anniversary of the grant. Share awards are measured at fair value at the date of grant, and the resulting share-based payment expense is recognized on a graded-vesting basis over the related vesting period. During the three month period ended June 30, 2012, the Company expensed $1.1 million in stock based compensation as compared to $0.4 million in the three month period ended June 30, 2011.

During the six month period ended June 30, 2012, the Company expensed $1.9 million in stock based compensation as compared to $0.5 million in the prior year comparative period.

The Company granted 117,998 share awards in the second quarter of 2012 as compared to 1,555,500 stock option grants in the second quarter of 2011. Total share awards forfeited were 244,987 in the quarter versus 244,167 options forfeited in the second quarter last year. At the end of the second quarter 2012, the Company has 3,386,080 share awards and 1,054,434 options outstanding, representing 2% of the shares outstanding.

FINANCE EXPENSE

Finance expenses	Three months ended June 30,				Six months ended June 30,			
(000's except per boe amounts)	**2012**	**$ per boe**	2011	$ per boe	**2012**	**$ per boe**	2011	$ per boe
Accretion on decommissioning provision	**443**	**0.34**	262	0.38	**682**	**0.27**	527	0.38
Interest and bank charges	**1,356**	**1.05**	865	1.26	**2,712**	**1.09**	1,614	1.18
Total	**1,799**	**1.39**	1,127	1.64	**3,394**	**1.36**	2,141	1.56

For the three months ended June 30, 2012, finance charges were $1.8 million as compared to $1.1 million in the three month period ended June 30, 2011. With the Emerge acquisition, average bank debt for the quarter has increased to $115 million compared to the last year's $80 million. For the six months ended June 30, 2012, finance charges were $3.4 million as compared to $2.1 million in the same period last year.

The Company's current interest charge on bank borrowings is bank prime of 3.0% plus a margin of 0.50% for a total effective rate of 3.50%. This compares to last year's effective rate of 3.50%

DERIVATIVE ACTIVITIES

During 2011 and 2012, the Company has entered into both fixed price swaps for natural gas and crude oil and sold forward calls on oil production and fixed/floating interest rate swap transactions. As part of our financial management strategy to protect cash flows available for the payment of dividends, Twin Butte has adopted a commodity price and interest rate risk management program. The purpose of the program is to stabilize and hedge future cash flow against the unpredictable commodity price environment, with an emphasis on protecting downside risk.

Entering into derivative instruments is looked upon as a way for the Company to reduce 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 derivative instruments and limits the volumes hedged to approximately 70% or less of near term forecasted sales volumes and 50% over 1 year out.

The Company has recognized a realized gain on financial derivatives in the amount of $8.9 million ($6.91 per boe) for the three month period ended June 30, 2012 as compared to a realized loss of $0.2 million ($0.24 per boe) realized loss for the prior quarter comparative period. The realized gain on financial derivatives for the three month period ended June 30, 2012 amounted to a gain of $2.6 million for natural gas sales price derivatives, and a gain of $6.3 million for crude oil sales price derivatives.

The Company has recognized a realized gain on financial derivatives in the amount of $11.5 million ($4.59 per boe) for the six month period ended June 30, 2012 as compared to a $0.7 million ($0.48 per boe) realized gain for the prior quarter comparative period. The realized gain on financial derivatives for the six month period ended December 31, 2012 included a gain of $5.0 million for natural gas sales price derivatives, and a gain of $6.5 million for crude oil sales price derivatives.

As at June 30, 2012, the Company has a net unrealized financial derivatives asset in the amount of $30.4 million. The Company has recognized an unrealized gain on financial derivatives in the amount of $31.9 million for the three month period ended June 30, 2012 as compared to $9.8 million unrealized gain for the prior year comparative period. This reflects the decrease in oil and gas prices during the quarter.

Financial Derivatives	Three months ended June 30,				Six months ended June 30,			
(000's except per boe amounts)	**2012**	**$ per boe**	2011	$ per boe	**2012**	**$ per boe**	2011	$ per boe
Realized gain (loss)	**8,928**	**6.91**	(166)	(0.24)	**11,459**	**4.59**	654	0.48
Unrealized gain (loss)	**31,856**	**24.67**	9,841	14.31	**35,736**	**14.32**	751	0.55
Gain (loss) on derivatives	**40,784**	**31.58**	9,675	14.07	**47,195**	**18.91**	1,405	1.03

The Company has been able to utilize Twin Butte's oil production to enhance our natural gas price for 2012 year through the use of an enhanced swap, where we sold forward written calls on oil production for 2012 and 2013 at prices above our budgeted pricing, and used this value to enhance the swap price we have received on natural gas sales through December 2012 to well 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 June 30, 2012 and their related fair market values (unrealized gain (loss) positions):

Crude Oil Sales Price Derivatives

Daily barrel ("bbl") quantity	Remaining term of contract	Fixed price per bbl (CAD)	Fixed written call price per bbl WTI	Fixed $ WCS vs. bbl (WTI)	Fair market value $ 000's
500	July 1, 2012 to December 31, 2012	$ 99.50			$ 1,059
500	July 1, 2012 to December 31, 2012	$ 101.00			$ 1,197
500	July 1, 2012 to September 30, 2012	$ 86.00			$ 1,186
4050	July 1, 2012 to September 30, 2012			$ (19.50)	$ 2,803
1000	January 1, 2013 to December 31, 2013			$ (24.50)	$ (286)
1000	July 1, 2012 to December 31, 2012	$ 81.00			$ 3,872
300	July 1, 2012 to December 31, 2012	$ 100.45			$ 688
500	July 1, 2012 to December 31, 2012	$ 90.00			$ 189
250	July 1, 2012 to December 31, 2012	$ 94.84			$ 316
500	January 1, 2013 to December 31, 2013	$ 97.50			$ 1,226
500	July 1, 2012 to December 31, 2012	$ 98.51			$ 969
750	October 1, 2012 to December 31, 2012	$ 100.20			$ 791
500	January 1, 2013 to December 31, 2013	$ 102.70			$ 2,162
500	July 1, 2012 to September 30, 2012	$ 101.05			$ 638
500	July 1, 2012 to December 31, 2012	$ 110.55			$ 2,071
500	July 1, 2012 to December 31, 2012	$ 83.78			$ 2,192
500	July 1, 2012 to September 30, 2012	$ 84.00			$ 1,096
500	July 1, 2012 to December 31, 2012	$ 109.03			$ 1,932
500	January 1, 2013 to December 31, 2013	$ 106.31			$ 2,812
500	July 1, 2012 to September 30, 2012	$ 83.07			$ 1,052
500	October 1, 2012 to December 31, 2012	$ 80.97			$ 978
1000	July 1, 2012 to December 31, 2012		US $110.00		$ (51)
1000	January 1, 2013 to December 31, 2013		US $100.00		$ (153)
1000	January 1, 2013 to December 31, 2013		US $110.00		$ (2,217)
Crude oil fair value position					$ 26,522

WTI represents posting price of West Texas Intermediate oil

WCS represents the posting price of Western Canadian Select oil

Subsequent to the quarter end the Company has entered into fixed rate $Cdn swaps on 2000 bbl/d for January – December 2013 at an average of $93.05 WTI. In addition the Company entered into a fixed price swap on 7,800 GJ/d for 2013 at $4.50/GJ AECO and sold calls on 1300 b/d for 2013 at $US105.00 and 1300 b/d for 2014 at $US110.00.

Natural Gas Sales Price Derivatives

Daily giga-joule ("GJ") quantity	Remaining term of contract	Fixed price per GJ (AECO) Daily	Fixed call price per GJ (AECO Monthly)	Fair Market value $ 000's
6,000	July 1 to December 31, 2012	$ 4.12		$ 1,856
6,000	July 1 to December 31, 2012	$ 4.30		$ 2,054
Natural gas fair value position				$ 3,910

Gain/Loss on Dispositions

No gain or loss on disposition was recognized in the second quarter.

During the first quarter the company disposed of two properties for net cash proceeds of $6.3 million which resulted in a reported gain of $3.0 million. This compares to last years' dispositions of $11.6 million producing a gain of $2.6 million

DEPLETION & DEPRECIATION & IMPAIRMENT

For the three month period ended June 30, 2012, depletion and depreciation of capital assets was $23.2 million or $17.97 per boe compared to $9.4 million or $13.69 per boe for the three month period ended June 30, 2011. The increase is primarily due to the Emerge acquisition.

For the six month period ended June 30, 2012, depletion and depreciation of capital assets was $43.6 million or $17.49 per boe compared to $18.3 million or $13.31 per boe for the six month period ended June 30, 2011.

INCOME TAXES

Deferred tax expense amounted to $10.3 million for the three month period ended June 30, 2012 compared to $4.4 million expense for the three month period ended June 30, 2011.

Deferred income tax expense amounted to $13.1 million for the six month period ended June 30, 2012, compared to a deferred income tax expense in the amount of $3.7 million for the six month period ended June 30, 2011. No cash income taxes were paid in 2012 and 2011.

The Company has existing tax losses and pools of approximately $543 million. These income tax pools are deductible at various rates and annual deductions associated with the initial pools will decline over time.

Funds Flow from Operations, and Net Income (Loss) and Comprehensive Income (Loss)

	Three months ended June 30,				Six months ended June 30,			
(000's except per share amounts)	**2012**	**$/share**	2011	$/share	**2012**	**$/share**	2011	$/share
Funds flow [(1)]	**33,762**	**0.17**	17,686	0.13	**60,162**	**0.32**	30,544	0.23
Net Income (loss)	**29,528**	**0.15**	12,765	0.10	**44,511**	**0.23**	10,504	0.08

(1) Funds flow from operations and funds flow from operations netback are non-IFRS measures that represent the total and the average per boe, respectively, of cash provided by operating activities, before adjusting for changes in non-cash working capital items and expenditures on decommissioning liabilities.

Funds flow from operations for the three month period ended June 30, 2012 was $33.8 million, an increase of 28% from the first quarter 2012 funds flow of $26.4 million. This represents $0.17 per diluted share compared to $0.13 per diluted share for the same quarter last year and $0.14 in the first quarter 2012. The increase in funds flow is again due to the Emerge acquisition and the increase in production to 14,193 boe/d from 7,556 boe/d.

With significantly higher revenues, the Company posted net income and comprehensive income of $29.5 million for the three month period ended June 30, 2012, equating to a basic and diluted net income per share of $0.15, compared to net income and comprehensive income of $12.8 million for the three month period ended June 30, 2011, equating to a basic and diluted net income per share of $0.10.

Funds flow from operations for the six month period ended June 30, 2012 was $60.2 million, an increase of 97% from the six month period ended June 30, 2011 funds flow of $30.5 million. This also represents a 38% increase in funds flow per share, both basic and diluted of $0.32 per share for the six month period ended June 30, 2012 compared to $0.23 per share for the prior year comparative period. The significant increase in funds flow is due primarily to the 81% increase in production along with improved commodity weighting to oil and liquids.

Funds flow from operations calculation	Six Months ended	
($000's)	**June 30, 2012**	June 30, 2011
Cash flow from operating activities	**60,066**	38,343
Expenditures on decommissioning liability	**(157)**	245
Change in non-cash working capital	**61**	(8,044)
Funds flow from operations	**60,162**	30,544

The net income and comprehensive income of $29.5 million for the three month period ended June 30, 2012 includes non-cash items of depletion and depreciation of $23.2 million, deferred tax expense of $10.3 million, accretion on decommissioning provision of $0.4 million, unrealized gains on derivative instruments of $31.9 million and share-based payments of $1.1 million.

The net income and comprehensive income of $44.3 million for the six month period ended June 30, 2012 includes non-cash items including depletion and depreciation of $43.6 million, deferred tax expense of $13.1 million, accretion on decommissioning provision of $0.7 million, unrealized gains on financial derivatives of $35.7 million, a gain of $3.0 million on sale of property, and exploration and evaluation of $2.2 million and stock based compensation expense of $1.9 million.

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

($ per boe)	**Q2 2012**	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010
Petroleum and natural gas sales	**54.33**	60.23	58.22	49.90	56.36	46.34	44.18	39.21
Royalties	**(12.84)**	(14.52)	(11.42)	(11.30)	(9.98)	(8.73)	(8.47)	(7.97)
Realized gain (loss) on financial derivatives	**6.91**	2.10	(1.16)	2.65	(0.24)	1.20	2.51	3.18
Operating expenses	**(17.19)**	(18.62)	(16.96)	(16.25)	(14.99)	(14.73)	(13.79)	(12.93)
Transportation expenses	**(2.26)**	(2.48)	(1.96)	(1.90)	(1.63)	(1.87)	(1.65)	(1.58)
Operating netback [1]	**28.95**	26.71	26.72	23.10	29.52	22.21	22.78	19.91
General and administrative expenses	**(1.57)**	(2.03)	(2.18)	(2.04)	(2.53)	(2.33)	(1.87)	(2.34)
Transaction costs	**(0.20)**	(1.63)	–	–	–	–	–	–
Interest expense	**(1.05)**	(1.13)	(0.97)	(0.98)	(1.26)	(1.09)	(1.36)	(0.69)
Funds flow from operations [2]	**26.13**	21.92	23.57	20.08	25.73	18.79	19.55	16.88

(1) Operating netback is a non-IFRS measure calculated as the average per boe of the Company's oil and gas sales, realized gains(losses) on derivatives, less royalties, operating and transportation expenses.

(2) Funds flow from operations is a non-IFRS measure that represents the total of funds provided by operating activities, before adjusting for changes in non-cash working capital items and expenditures on decommissioning liabilities.

QUARTERLY FINANCIAL SUMMARY

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

	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010
($ thousands, except per share amounts)								
Average production (boe/d)	**14,193**	13,228	7,695	7,599	7,556	7,608	7,161	6,481
Petroleum and natural gas sales	**70,173**	72,497	41,216	34,885	38,748	31,728	29,111	23,382
Operating netback (per boe)	**28.95**	26.71	26.72	23.1	29.52	22.21	22.78	19.91
Funds flow from operations	**33,762**	26,400	16,686	14,042	17,686	12,789	12,887	10,275
Per share basic	**0.18**	0.14	0.12	0.10	0.13	0.10	0.10	0.08
Per share diluted	**0.17**	0.14	0.12	0.10	0.13	0.10	0.10	0.08
Net income (loss)	**29,529**	14,983	(37,047)	7,522	12,765	(2,262)	(1,148)	(1,135)
Per share basic	**0.15**	0.08	(0.27)	0.05	0.10	(0.02)	(0.01)	(0.01)
Per share diluted	**0.15**	0.08	(0.27)	0.06	0.09	(0.02)	(0.01)	(0.02)
Corporate acquisitions	**–**	203,000	–	–	2,388	6	21,100	–
Capital expenditures (net of dispositions)	**23,576**	8,058	9,842	22,071	17,257	5,847	12,340	11,765
Total assets	**588,893**	583,439	340,664	370,472	348,790	338,478	337,685	306,658
Net debt excluding financial derivatives	**124,459**	126,466	77,169	83,857	75,960	80,677	96,026	76,238

CAPITAL EXPENDITURES

During the second quarter of 2012, the Company invested $24.0 million on capital activity, which includes E&E assets and divested $0.4 million of non-core properties. The Company's capital expenditures for the second quarter were focused in predominantly in three areas, with drilling in the heavy oil areas of Frog Lake, 9 (7.5 net) oil wells, Primate 2 (2 net dry) oil wells and Silverdale/Furness 5 oil wells (5 net).

The Company has drilled a total of 48 (36.2 net) wells in 2012, of which 100% (net) were oil wells, and 1 was Dry and Abandoned (D&A). During the six months ended June 30, 2012, the Company has invested $25.4 million on operational capital activity. In addition, the Company completed property acquisitions and dispositions for a net outlay of $6.1 million for a total net capital investment of $31.5 million.

The following tables summarize capital expenditures, drilling results and undeveloped land positions for 2012 and 2011.

($ 000's)	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Exploration & evaluation assets	**$ 1,200**	$ –	**$ 1,058**	$ –
Land acquisition	**1**	251	**18**	471
Geological and geophysical	**78**	294	**226**	868
Drilling and completions	**6,894**	11,086	**16,763**	22,890
Equipping and facilities	**1,665**	4,828	**4,555**	8,813
Other	**1,333**	941	**2,795**	1,700
Gross Capital	**11,171**	17,400	**25,415**	34,742
Property acquisitions*	**12,845**	–	**12,845**	–
Property dispositions	**(442)**	(143)	**(6,770)**	(11,643)
	$ 23,574	$ 17,257	**$ 31,490**	$ 23,099
Company Acquisitions	**–**	2,388	**203,000**	2,394
Total net capital expenditures	**$ 23,574**	$ 19,645	**$ 234,490**	$ 25,493

*Property acquisitions do not include E&E assets

Drilling Results

Three months ended June 30	2012		2011	
	Gross	**Net**	Gross	Net
Crude oil	**15**	**13.5**	33	19.1
Natural gas	**–**	**–**	–	–
Dry and abandoned	**1**	**1**	1	1
Total	**16**	**14.5**	34	20.1
Success rate (%)		**93%**		95%

Six months ended June 30	2012		2011	
	Gross	**Net**	Gross	Net
Crude oil	**47**	**35.2**	69	45.6
Natural gas	**–**	**–**	–	–
Dry and abandoned	**1**	**1**	2	2
Total	**48**	**36.2**	71	47.6
Success rate (%)		**97%**		96%

Undeveloped Land

The Company's undeveloped land holdings have been reduced by a combination of drilling, dispositions and expiries in the past 12 months.

Three months ended June 30	2012	2011
Gross Acres	**299,369**	317,878
Net Acres	**235,708**	232,021

LIQUIDITY AND CAPITAL RESOURCES

The Company evaluates its ability to carry on business as a going concern on a quarterly basis. The key indicator is whether the funds flow, which is after interest and G&A expenses, will be sufficient to cover all obligations. In addition, the Company budgets to use funds flow from operations 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. To maintain the Company's net debt at or below current levels, Twin Butte planned 2012 capital expenditures to equal approximately two-thirds of funds flow, one-third dividends, and proceeds from non-core property dispositions. This has continued to provide the Company a significant undrawn portion on the Company's credit facility borrowing.

As at June 30, 2012, the Company had a credit facility with a syndicate of three Canadian chartered banks in the amount of $205.0 million which was last renewed in January, 2012. The credit facility is composed of a $205.0 million demand revolving operating credit facility. The Company's credit facility is subject to semi-annual review by the bank, with the last semi-annual credit facility review approved in April 2012. 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 interest rate charged by the bank is dependent on the Company's debt to cash flow ratio from the quarterly results two quarters earlier and was 3.50% in the second quarter. The bankers' acceptances bear interest at the applicable bankers' acceptance rate plus a stamping fee, based on the Company's debt to trailing cash flow ratio. The credit facility is secured by a demand debenture and a general security agreement covering all assets of the Company.

The Company's bank indebtedness does not have a specific maturity date as it is a demand facility. This means that the lender has the ability to demand repayment of all outstanding indebtedness or a portion thereof at any time. If that were to occur the Company would be required to source alternate credit facilities or sell assets to repay the indebtedness. The Company reduces this risk by complying with the covenants of the banking syndicate and maintaining a reasonable undrawn balance on the facility. The covenants require maintaining a current ratio of not less than 1.0:1.0.

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 cash dividend payable less financial derivatives) in the definition of capital. The Company's share capital is not subject to external restrictions; however, its credit facility value is based primarily on its petroleum and natural gas reserves and there are covenants Twin Butte must comply with (refer to note 9 in the interim financial statements for the three months ended June 30, 2012). The Company was in compliance with all of its financial covenants at June 30, 2012.

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.

At June 30, 2012, the Company had $115.8 million drawn on its credit facility and total net debt of $124.5 million. The Company has $89.2 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.

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

SHARE CAPITAL

In the second quarter 18,333 options were exercised for proceeds of $13,000.

In the first quarter of 2012 with the completion of the Emerge acquisition 54,138,883 were issued from Treasury. In addition, there were 43,333 options exercised for proceeds of $99,000 and 2,180,500 vested share awards were also exercised.

As of August 14, 2012 the Company has 192,493,194 Common Shares, 1,071,101 stock options and 3,432,065 share awards, included reinvested dividends, outstanding.

CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

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

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

RELATED PARTY TRANSACTIONS

During the three month period ended June 30, 2012, the Company incurred costs totaling $1.1 million ($5.2 million – December 31) for oilfield services and legal counsel rendered by three companies in which an officer and director of Twin Butte is a director. These costs were incurred in the normal course of business and have been recorded at exchange amount. As at June 30, 2012, the Company had $1.0 million ($0.1 million – December 31, 2011) included in accounts payable and accrued liabilities related to these transactions.

During the six months ended June 30, 2012 the Company incurred costs totaling $3.4 million ($2.7 million – June 30, 2011).

SUBSEQUENT EVENT

Crude Oil Sales Price Derivative Contract

Subsequent to June 30, 2012 the Company entered into the following crude oil and natural gas price derivatives:

Daily barrel (bbl) quantity	Term of contract Fixed Price per bbl	Fixed price per bbl (CAD)	Fixed $ WCS vs. bbl (WTI)	Fixed call price per barrel (WTI)
1000	January 1, 2013 to December 31, 2013	$92.00 Cdn		
1000	January 1, 2013 to December 31, 2013	$94.10 Cdn		
1300	January 1, 2013 to December 31, 2013			$105.00
1300	January 1, 2014 to December 31, 2014			$110.00
4300	October 1, 2012 to December 31, 2012		$(21.42)	

Gas

Daily giga-joule ("GJ") quantity	Daily barrel ("bbl") quantity	Term of contract	Fixed price per GJ (AECO Monthly)
7,800		January 1, 2013 to December 31, 2013	$4.50

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with IFRS requires Management to make certain judgments and estimates. Changes in these judgments and estimates could have a material impact on the Company's financial results and financial condition.

Management relies on the estimate of reserves as prepared by the Company's independent qualified reserves evaluator. The process of estimating reserves is critical to several accounting estimates and is complex and requires significant judgments and decisions based on available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development and production activities becomes available and as economic conditions impact crude oil and natural gas prices, operating expense, royalty burden changes, and future development costs. Reserve estimates impact net income through depletion and impairment of petroleum and natural gas properties. The reserve estimates are also used to assess the borrowing base for the Company's credit facilities. Revision or changes in the reserve estimates can have either a positive or a negative impact on net income and the borrowing base of the Company.

Management's process of determining the provision for deferred income taxes, the provision for decommissioning liability costs and related accretion expense, and the fair values assigned to any acquired assets and liabilities in a business combination is based on estimates. These estimates are significant and can include proved and probable reserves, future production rates, future petroleum and natural gas prices, future costs, future interest rates, future tax rates and other relevant assumptions. Revisions or changes in any of these estimates can have either a positive or a negative impact on asset and liability values and net income.

In accordance with IFRS, derivative assets and liabilities are recorded at their fair values at the reporting date, with gains and losses recognized directly into comprehensive income in the same period. The fair value of derivatives outstanding is an estimate based on pricing models, estimates, assumptions and market data available at that time. As such, the recognized amounts are non-cash items and the actual gains or losses realized on eventual cash settlement can vary materially due to subsequent fluctuations in commodity prices and foreign exchange rates as compared to the valuation assumptions.

The fair value of stock options is based on estimates using the Black-Scholes option pricing model and is recorded as share-based payments expense in the financial statements.

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

There have been no changes to accounting pronouncements not yet adopted during the three months ended June 30, 2012. Additional information concerning accounting pronouncements not yet adopted is disclosed in the notes to the audited financial statements and MD&A for the year ended December 31, 2011.

ASSESSMENT OF BUSINESS RISKS

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

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

> Reserve risk in respect to the quantity and quality of recoverable reserves;

> Exploration and development risk of being able to add new reserves economically;

> Market risk relating to the availability of transportation systems to move the product to market;

> Commodity risk as crude oil and natural gas prices fluctuate due to market forces;

> Financial risk such as volatility of the Canadian/US dollar exchange rate, interest rates and debt service obligations;

> Environmental and safety risk associated with well operations and production facilities;

> Changing government regulations relating to royalty legislation, income tax laws, incentive programs, operating practices and environmental protection relating to the oil and natural gas industry; and

> Continued participation of Twin Butte's lenders.

Twin Butte seeks to mitigate these risks by:

> Acquiring properties with established production trends to reduce technical uncertainty as well as undeveloped land with development potential;

> Maintaining a low cost structure to maximize product netbacks and reduce impact of commodity price cycles;

> Diversifying properties to mitigate individual property and well risk;

> Maintaining product mix to balance exposure to commodity prices;

> Conducting rigorous reviews of all property acquisitions;

> Monitoring pricing trends and developing a mix of contractual arrangements for the marketing of products with creditworthy counterparties;

> Maintaining a hedging program to hedge commodity prices with creditworthy counterparties;

> Adhering to the Company's safety program and adhering to current operating best practices;

> Keeping informed of proposed changes in regulations and laws to properly respond to and plan for the effects that these changes may have on our operations;

> Carrying industry standard insurance;

> Establishing and maintaining adequate resources to fund future abandonment and site restoration costs; and

> Monitoring our joint venture partners' obligations to us and cash calling for capital projects to limit the Company's credit risk.

Disclosure Controls and Internal Controls over Financial Reporting

Disclosure controls and procedures have been designed to provide reasonable assurance that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified under the Canadian securities law.

Twin Butte's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation, that the disclosure controls and procedures as of the end of June 30, 2012, are effective and provide reasonable assurance that material information related to the Company is made known to them by others within Twin Butte.

Twin Butte's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining internal controls over financial reporting ("ICFR"). They have, as at the quarter ended June 30, 2012, designed ICFR or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The control framework Twin Butte's officers used to design the ICFR is the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations.

Twin Butte's Chief Executive Officer and Chief Financial Officer are required to disclose any change in the internal controls over financial reporting that occurred during our most recent interim period that has materially affected, or is reasonably likely to affect, the Company's internal controls over financial reporting. No material changes in the internal controls were identified during the period ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

It should be noted that a control system, including Twin Butte's disclosure and internal controls and procedures, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

BALANCE SHEET

As at *(unaudited - Cdn$ thousands)*	*Note*	**June 30, 2012**	December 31, 2011
ASSETS			
Current Assets			
Accounts receivable		**$ 41,957**	$ 31,731
Deposits and prepaid expenses		**3,609**	2,447
Derivative assets	*3*	**30,039**	5,449
		75,605	39,627
Non-current assets			
Deferred taxes		**12,094**	7,514
Derivative assets	*3*	**3,100**	–
Exploration and evaluation	*5*	**19,557**	17,044
Property and equipment	*4,6*	**478,537**	276,479
		$ 588,893	$ 340,664
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities		**$ 51,320**	$ 31,158
Bank indebtedness	*7*	**115,818**	80,188
Dividend payable		**2,887**	–
Derivative liabilities	*3*	**2,010**	6,419
		172,035	117,765
Non-current liabilities			
Derivative liabilities	*3*	**697**	3,102
Decommissioning provision	*8*	**70,787**	38,401
		243,519	159,268
Shareholders' Equity			
Share capital	*9*	**367,058**	227,520
Contributed surplus		**4,893**	7,506
Deficit		**(26,577)**	(53,630)
		345,374	181,396
		$ 588,893	$ 340,664

Commitments and contingencies (note 14)

The accompanying notes are an integral part of these interim financial statements.

STATEMENT OF INCOME AND COMPREHENSIVE INCOME

(unaudited - Cdn$ thousands except per share amounts)	*Note*	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Petroleum and natural gas sales		**$ 70,173**	$ 38,748	**$ 142,670**	$ 70,476
Royalties		**(16,583)**	(6,863)	**(34,057)**	(12,844)
Revenues		**$ 53,590**	$ 31,885	**$ 108,613**	$ 57,632
Expenses					
Operating		**22,197**	10,306	**44,607**	20,395
Transportation		**2,914**	1,122	**5,901**	2,399
General and administrative	*10*	**2,024**	1,740	**4,467**	3,335
Transaction costs		**264**	–	**2,224**	–
Share-based payments	*9*	**1,101**	352	**1,946**	545
Finance expense	*11*	**1,799**	1,127	**3,394**	2,141
Gain on derivatives	*3*	**(40,783)**	(9,675)	**(47,195)**	(1,405)
Exploration and evaluation	*5*	**215**	350	**235**	350
Gain on disposition of property and equipment	*6*	**–**	–	**(2,997)**	(2,590)
Negative goodwill	*4*	**–**	–	**(6,991)**	–
Depletion and depreciation	*6*	**23,212**	9,413	**43,631**	18,259
Impairment of exploration and evaluation	*5*	**984**	–	**1,921**	–
		13,927	14,735	**51,143**	43,429
Income before income taxes		**39,663**	17,150	**57,470**	14,203
Deferred tax expense		**10,323**	4,385	**13,147**	3,699
Net Income And Comprehensive Income		**$ 29,340**	$ 12,765	**$ 44,323**	$ 10,504
Net Income per share $					
Basic	*9*	**0.15**	0.10	**0.23**	0.08
Diluted	*9*	**0.15**	0.09	**0.23**	0.08

The accompanying notes are an integral part of these interim financial statements.

STATEMENT OF CASH FLOWS

		Three Months Ended June 30,		Six Months Ended June 30,	
(unaudited - Cdn$ thousands)	*Note*	**2012**	2011	**2012**	2011
Cash provided by (used in):					
OPERATING ACTIVITIES:					
Net income		**$ 29,340**	$ 12,765	**$ 44,323**	$ 10,504
Adjustments for items not involving cash:					
Depletion and depreciation	*6*	**23,212**	9,413	**43,631**	18,259
Deferred tax expense		**10,323**	4,385	**13,147**	3,699
Unrealized gain on derivatives	*3*	**(31,856)**	(9,841)	**(35,735)**	(751)
Finance expenses	*11*	**1,799**	1,127	**3,394**	2,141
Interest paid	*11*	**(1,356)**	(865)	**(2,712)**	(1,613)
Share-based payments	*9*	**1,101**	352	**1,946**	545
Exploration and evaluation expenses	*5*	**1,199**	350	**2,156**	350
Gain on negative goodwill	*4*	**–**	–	**(6,991)**	–
Gain on disposition of property and equipment	*6*	**–**	–	**(2,997)**	(2,590)
		33,762	17,686	**60,162**	30,544
Expenditures on decommissioning liability	*8*	**(114)**	(177)	**(157)**	(245)
Changes in non-cash working capital	*12*	**(2,057)**	78	**61**	8,044
		31,591	17,587	**60,066**	38,343
FINANCING ACTIVITIES					
Payment of bank indebtedness	*7*	**(2,439)**	(4,211)	**(22,697)**	(31,722)
Issuance of share capital	*9*	**–**	6,726	**–**	14,608
Issuance of share capital on exercise of stock options	*9*	**13**	110	**112**	242
Dividends paid		**(8,642)**	–	**(14,383)**	–
		(11,068)	2,625	**(36,968)**	(16,872)
INVESTING ACTIVITIES					
Expenditures on property and equipment assets		**(6,919)**	(17,967)	**(15,550)**	(30,720)
Expenditures on exploration and evaluation assets		**(1,267)**	–	**(1,539)**	–
Acquisitions of property and equipment	*4*	**(12,846)**	(2,388)	**(12,846)**	(2,394)
Proceeds on disposition of property and equipment		**442**	–	**6,355**	–
Proceeds on disposition of exploration and evaluation assets	*5*	**67**	143	**482**	11,643
		(20,523)	(20,212)	**(23,098)**	(21,471)
Change in cash		**$ –**	$ –	**$ –**	$ –
Cash and cash equivalents, beginning and end of period		**$ –**	$ –	**$ –**	$ –

The accompanying notes are an integral part of these interim financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

		Three Months Ended June 30,		Six Months Ended June 30,	
(unaudited - Cdn$ thousands)	*Note*	**2012**	2011	**2012**	2011
Share capital					
Balance, beginning of period		**$ 365,130**	$ 220,035	**$ 227,520**	$ 211,538
Common shares issued for Emerge acquisition	*4*	**–**	–	**134,264**	–
Common shares issued under employee and option plan	*9*	**1,928**	159	**5,274**	338
Warrants exercised		**–**	7,097	**–**	15,415
Balance, end of period		**$ 367,058**	$ 227,291	**$ 367,058**	$ 227,291
Warrants					
Balance, beginning of year		**$ –**	$ 476	**$ –**	$ 912
Warrants expired		**–**	(105)	**–**	(105)
Warrants exercised		**–**	(371)	**–**	(807)
Balance, end of period		**$ –**	$ –	**$ –**	$ –
Contributed surplus					
Balance, beginning of period		**$ 5,139**	$ 5,416	**$ 7,506**	$ 5,124
Share-based payments for awards exercised		**(246)**	(50)	**(2,613)**	(97)
Warrants expired		**–**	105	**–**	105
Share-based payments for options granted		**–**	617	**–**	956
Balance, end of period		**$ 4,893**	$ 6,088	**$ 4,893**	$ 6,088
Deficit					
Balance, beginning of period		**$ (47,271)**	$ (36,870)	**$ (53,630)**	$ (34,609)
Dividends		**$ (8,646)**	$ –	**$ (17,270)**	$ –
Net income & comprehensive income		**29,340**	12,765	**44,323**	10,504
Balance, end of period		**$ (26,577)**	$ (24,105)	**$ (26,577)**	$ (24,105)

The accompanying notes are an integral part of these interim financial statements.

NOTES TO INTERIM FINANCIAL STATEMENTS

For the periods ended June 30, 2012 and 2011(unaudited)

All tabular amounts are in thousands of Canadian dollars except as otherwise indicated.

NOTE 1. BUSINESS AND STRUCTURE OF TWIN BUTTE

Twin Butte Energy Ltd. ("Twin Butte" or "the Company") is a growth oriented junior oil and natural gas exploration, development and production company with properties located in Western Canada. Twin Butte is domiciled and incorporated in Canada under the Business Corporation's Act (Alberta). Twin Butte's head office address is 410, 396 – 11th Avenue SW, Calgary, Alberta, Canada. The Company's primary listing is on the Toronto Stock Exchange under the symbol (TBE).

NOTE 2. BASIS OF PREPARATION

The Company prepares its condensed interim statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The Company has consistently applied the same accounting policies throughout all periods presented as those set out in the audited financial statements for the year ended December 31, 2011. Certain disclosures included in the notes to the annual financial statements have been condensed in the following note disclosures or have been disclosed on an annual basis only. The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2011, which have been prepared in accordance with IFRS as issued by the IASB.

These financial statements were prepared under IFRS issued and outstanding as of August 14, 2012, the date the financial statements were authorized for issue by the Board of Directors.

NOTE 3. FINANCIAL INSTRUMENTS

(a) Price and currency risk

For the three months ended June 30, 2012, $40.8 million was recognized in net income as a gain on derivatives ($0.3 million gain on derivatives - December 31, 2011). The table below summarizes the realized and unrealized gain (loss) on derivatives:

Derivative Position

Financial Derivatives	Three months ended June 30,		Six months ended June 30,	
	2012	2011	**2012**	2011
Realized gain (loss)	**8,928**	(166)	**11,459**	654
Unrealized gain	**31,856**	9,841	**35,735**	751
Gain on derivatives	**40,783**	9,675	**47,195**	1,405

As at	**June 30, 2012**	December 31, 2011
Derivatives		
Current asset	**30,039**	5,449
Non-current asset	**3,100**	–
Current liability	**(2,010)**	(6,419)
Non-current liability	**(697)**	(3,102)
Net derivative asset (liability) position	**30,432**	(4,072)

Crude Oil Sales Price Derivatives

Daily barrel ("bbl") quantity	Remaining term of contract	Fixed price per bbl (CAD)	Fixed written call price per bbl WTI	Fixed $ WCS vs. bbl (WTI)	Fair market value $ 000's
500	July 1, 2012 to December 31, 2012	$ 99.50			$ 1,059
500	July 1, 2012 to December 31, 2012	$ 101.00			$ 1,197
500	July 1, 2012 to September 30, 2012	$ 86.00			$ 1,186
4050	July 1, 2012 to September 30, 2012			$ (19.50)	$ 2,803
1000	January 1, 2013 to December 31, 2013			$ (24.50)	$ (286)
1000	July 1, 2012 to September 30, 2012	$ 81.00			$ 3,872
300	July 1, 2012 to December 31, 2012	$ 100.45			$ 688
500	July 1, 2012 to December 31, 2012	$ 90.00			$ 189
250	July 1, 2012 to December 31, 2012	$ 94.84			$ 316
500	January 1, 2013 to December 31, 2013	$ 97.50			$ 1,226
500	July 1, 2012 to December 31, 2012	$ 98.51			$ 969
750	October 1, 2012 to December 31, 2012	$ 100.20			$ 791
500	January 1, 2013 to December 31, 2013	$ 102.70			$ 2,162
500	July 1, 2012 to September 30, 2012	$ 101.05			$ 638
500	July 1, 2012 to December 31, 2012	$ 110.55			$ 2,071
500	July 1, 2012 to December 31, 2012	$ 83.78			$ 2,192
500	July 1, 2012 to September 30, 2012	$ 84.00			$ 1,096
500	July 1, 2012 to December 31, 2012	$ 109.03			$ 1,932
500	January 1, 2013 to December 31, 2013	$ 106.31			$ 2,812
500	July 1, 2012 to September 30, 2012	$ 83.07			$ 1,052
500	October 1, 2012 to December 31, 2012	$ 80.97			$ 978
1000	July 1, 2012 to December 31, 2012		US $ 110.00		$ (51)
1000	July 1, 2012 to December 31, 2012		US $ 100.00		$ (153)
1000	January 1, 2013 to December 31, 2013		US $ 110.00		$ (2,217)
Crude oil fair value position					$ 26,522

WTI represents posting price of West Texas Intermediate oil
WCS represents the posting price of Western Canadian Select oil

Natural Gas Sales Price Derivatives

Daily giga-joule ("GJ") quantity	Remaining term of contract	Fixed price per GJ (AECO) Daily	Fixed call price per GJ (AECO Monthly)	Fair Market value $ 000's
6,000	July 1 to December 31, 2012	$ 4.12		$ 1,856
6,000	July 1 to December 31, 2012	$ 4.30		$ 2,054
Natural gas fair value position				$ 3,910

AECO represents the monthly index of the Alberta Natural gas price

(b) Capital management

Twin Butte's capital structure as at June 30, 2012 and December 31, 2011 is as follows:

	June 30,2012	Dec. 31,2011
Bank indebtedness	**115,818**	80,188
Working capital deficit (surplus) [1]	**8,641**	(3,019)
Net debt	**124,459**	77,169
Shareholders' Equity	**345,374**	181,396
Net Debt to Equity	**0.36**	0.43
Total capitalization	**124,459**	77,169

(1) Working capital deficit is a non-IFRS measure that includes accounts receivables, deposits and prepaid expenses, accounts payable, and accrued liabilities, and cash dividend payable.

The Company's capital management objectives, policies and processes have remained unchanged during the reporting periods.

NOTE 4. BUSINESS COMBINATIONS & ASSET ACQUISITIONS

(a) Acquisition of Emerge Oil & Gas Inc.

On January 10, 2012, the Company purchased all the issued and outstanding shares of Emerge Oil & Gas Inc. ("Emerge"), a public exploration and production company, for total consideration of $134 million. Emerge was amalgamated with Twin Butte on the same day. The purpose of the acquisition was to increase Twin Butte's presence and size in its core heavy oil fairway allowing for operating synergies. The value of the Common Shares issued as consideration was determined based on the trading value of Twin Butte's Common Shares on the date of acquisition. The purchase was paid for through the issuance of 54.1 million common shares of Twin Butte and was accounted for as a business combination using the acquisition method of accounting under IFRS 3 Business Combinations.

The following are the estimated fair values of the net assets of Emerge:

	Total
Petroleum and natural gas properties	$ 203,000
Exploration and evaluation assets	3,627
Deferred income tax asset	17,728
Net working capital deficiency	(60,028)
Decommissioning obligation	(23,072)
Total net assets acquired	$ 141,255

The net working capital deficiency consists of the following:

	Total
Accounts receivable	$ 17,369
Deposits and prepaid expenses	534
Accounts payable and accrued liabilities	(18,371)
Derivative liabilities	(1,232)
Bank indebtedness	(58,328)
Net working capital deficiency	$ (60,028)

Consideration

	Total
Common Shares (54,138,883 shares at $2.48 per share)	$ 134,264
Negative goodwill purchase	6,991
	$ 141,255

The fair value of net assets acquired exceeded the consideration and a bargain purchase gain of $6,991,000 was included in net income (loss) during the six months ended June 30, 2012. The recognized amounts of identifiable assets and liabilities assumed were based on best estimates by Twin Butte's management and was based principally on valuations prepared by independent valuation specialists. The decommissioning obligation was fair valued using the credit–adjusted rate of 6%. The fair value of property and natural gas properties over the total consideration paid gave rise to the gain on purchase.

If the acquisition had occurred on January 1, 2012, management estimates revenues would have increased by an additional $3.8 million and net income would have increased by $0.5 million for the six months ended June 30, 2012. The transactions costs related to the acquisition amounted to $2.0 million and were expensed in the statement of income and comprehensive income.

In the period from January 10, 2012 to June 30, 2012, the acquisition contributed revenues of $71.5 million and net earnings of $9.4 million which are included in the Statement of Income and Comprehensive Income

(b) Swimming Asset Acquisition

On April 1, 2012, Twin Butte completed the acquisition of assets in the Swimming area for cash consideration of $14.1 million ($12.8 million was allocated to PP&E assets and $1.3 million to E&E assets). This property acquisition was acquired with full tax pools and no working capital items

NOTE 5. EXPLORATION AND EVALUATION ASSETS

Balance at January 1, 2011	$	19,897
Acquisitions		1,869
Transferred to property, plant and equipment (note 6)		(39)
Impairment		(794)
Dispositions		(547)
Exploration and evaluation expense - land expiries		(3,342)
Balance at December 31, 2011	$	17,044
Acquisitions and purchases	$	5,167
Transferred to property, plant and equipment (note 6)		(16)
Impairment		(1,921)
Dispositions		(483)
Exploration and evaluation expense - land expiries		(234)
Balance at June 30, 2012	**$**	**19,557**

Exploration and evaluation ("E&E") assets consist of the Company's land and exploration projects which are pending the determination of technical feasibility and commercial viability. There were indicators of impairment of E&E assets for future quarters of 2012, and $1.9 million in impairment loss was recognized ($0.8 million - December 31, 2011) for future land expiries for which management has neither budgeted nor planned further exploration for during the third quarter.

NOTE 6. PROPERTY AND EQUIPMENT

Cost:	Oil & gas properties	Office equipment	Total
Balance at December 31, 2010	$ 319,242	$ 219	$ 319,461
Additions	66,592	–	66,592
Acquisitions	2,394	–	2,394
Transfers from exploration and evaluation assets (note 5)	39	–	39
Changes in decommissioning provision	8,117	–	8,117
Disposals	(9,275)	–	(9,275)
Balance at December 31, 2011	$ 387,109	$ 219	$ 387,328
Additions	36,797	–	36,797
Acquisitions	203,000	–	203,000
Changes in decommissioning provision	9,116	–	9,116
Transfers from evaluation assets (note 5)	16	–	16
Disposals	(7,571)	–	(7,571)
Balance at June 30, 2012	**$ 628,467**	**$ 219**	**$ 628,686**
Accumulated depletion, depreciation and impairment losses:			
Balance at December 31, 2010	$ 31,695	$ 205	$ 31,900
Depletion and depreciation expense	38,670	14	38,684
Impairment expense	40,265	–	40,265
Balance at December 31, 2011	$ 110,630	$ 219	$ 110,849
Depletion and depreciation expense	43,631	–	43,631
Disposals	(4,331)	–	(4,331)
Balance at June 30, 2012	**$ 149,930**	**$ 219**	**$ 150,149**
Net Carrying Value			
December 31 , 2010	287,547	14	287,561
December 31 , 2011	276,479	–	276,479
June 30 , 2012	**478,537**	**–**	**478,537**

The Company has capitalized $1.6 million of general and administrative expenses directly related to development and production activities for the six months ended June 30, 2012 ($2.6 million – December 31, 2011). $1.2 million was capitalized for share based expenses in 2012 ($0.4 million – June 30, 2011)

Future development costs on proved plus probable undeveloped reserves of $200.0 million as at June 30, 2012 are included in the calculation of depletion ($153.1 million – December 31, 2011).

During the six months ended June 30, 2012, Twin Butte completed the sale of a combination of non-core properties in Alberta for net proceeds of $6.3 million ($11.9 million – December 31, 2011). A $3.0 million gain was recognized on these transactions ($2.6 million - December 31, 2011). There were no indicators of impairment at June 30, 2012.

NOTE 7. BANK INDEBTEDNESS

As at June 30, 2012, the Company had a $205 million demand revolving credit facility with a syndicate of three 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 of Canada ("bank") prime plus 0.50% 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 0.50%. A debt to cash flow ratio greater than three times has interest payable at the bank's prime lending rate plus 2.5%. The credit facility is secured by a demand debenture and a general security agreement covering all assets of the Company. The bank currently charges prime plus 0.75%. The effective rate for the six months ended June 30, 2012 was 3.5% (3.5% - June 30, 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 Company's credit facility was reviewed and approved in January 2012. The Company's credit facility is subject to semi-annual review by the bank, with the last semi-annual credit facility review approved in April 2012.

As at June 30, 2012 Twin Butte is in compliance with all financial covenants.

NOTE 8. DECOMMISSIONING PROVISION

Decommissioning obligations are based on the Company's net ownership in wells and facilities, and management's best 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 decommissioning provision to be $70.8 million at June 30, 2012 ($38.4 million – December 31, 2011), based on a total future liability of $79.7 million ($41.7 million – December 31, 2011). Payments to settle the obligations occur over the operating lives of the underlying assets, estimated to be from 2 to 19 years with the majority of the costs to be incurred after 2018. A risk free rate of 2.5% was used (2.5% - December 31, 2011), and an inflation rate of 2% was used to calculate the present value of the decommissioning provision.

Changes to the decommissioning provision are as follows:

As at	Jun 30, 2012	Dec 31, 2011
Decommissioning provision, beginning of period	**$ 38,401**	$ 30,274
Liabilities incurred	**1,580**	2,442
Liabilities settled	**(157)**	(1,067)
Liabilities acquired from acquisitions	**23,797**	276
Liabilities reduced from dispositions	**(378)**	(1,263)
Effect of change in risk free rate	**11,841**	5,365
Revisions in estimated cash outflows	**(4,979)**	1,296
Accretion of decommissioning provision	**682**	1,078
Decommissioning provision, end of period	**$ 70,787**	$ 38,401

NOTE 9. SHAREHOLDERS' EQUITY

Authorized

The Company has authorized an unlimited number of voting Common Shares and an unlimited number of Preferred Shares without nominal or par value.

	Number of Common Shares *(000's)*	Share capital $
Balance at January 1, 2011	128,198	211,538
Warrants exercised	6,825	15,414
Common shares issued under option plan	396	568
Balance at December 31, 2011	135,419	227,520
Shares issued pursuant to acquisition of Emerge	54,139	134,264
Share awards issued under employee plan	2,838	5,108
Common shares issued under option plan	62	166
Balance at June 30, 2012	**192,458**	**367,058**

During the first quarter 2012, Twin Butte completed the acquisition of Emerge by issuing 54,138,883 shares.

There were also 2,838,612 share awards exercised by employees and 61,666 stock options exercised for $0.1 million in proceeds.

On January 9, 2012, the Company approved an initial annualized dividend of $0.18 per share commencing in January 2012, or $0.015 per share, per month. Dividends declared during the six months ended June 30, 2012 totaled $17.3 million, equivalent to $0.09 per share ($Nil – December 31, 2011).

Share-based payments and Stock Options

(a) Share awards plan

The Company implemented a share award incentive plan effective January 9, 2012 along with the closing of the Emerge acquisition and the conversion to a dividend paying company. All service providers that held outstanding stock options were provided an opportunity to cancel their option agreements and receive share awards or continue to hold their option agreements. Share awards granted as replacement for cancelled options were provided with the same vesting schedule as the options they replaced. There will be no further stock options granted and the current outstanding options will be either exercised or forfeited. Share awards may be granted to employees, officers, directors and service providers where and Board has reserved up to 10% of outstanding Common Shares less outstanding options for issuance to eligible participants. All share awards are managed under the Share Award Incentive Plan and have a maximum term of 5 years and vest in equal one-third increments on each anniversary of the grant. Share awards are measured at fair value at the date of grant determined in reference to the Company's share price on grant date, and the resulting share-based payment expense is recognized on a graded-vesting basis over the related vesting period. The total number of shares reserved is 19,168,265 (13,295,000 - June 30, 2011). As at June 30, 2012 there were 3,386,080 common shares awards, included reinvested dividends, outstanding (Nil – June 30, 2011) and 1,054,434 (9,591,836 – June 30, 2011) common shares options reserved for issuance under the option plan or a total of 2.7% of outstanding shares.

The following table sets forth a reconciliation of share award incentive plan activity through June 30, 2012:

	Restricted share awards	Weighted average fair value at grant date
Outstanding at January 1, 2012	–	$ 0.00
Converted	4,638,938	1.50
Granted	2,097,344	2.46
Exercised	(3,132,591)	1.50
Reinvested dividends	137,158	2.59
Forfeited	(354,769)	2.26
Outstanding at June 30, 2012	**3,386,080**	**$ 2.06**

Share awards granted as replacement for cancelled options were provided with the same vesting schedule as the options they replaced (4,638,938 share awards replaced 8,739,536 converted options).

(b) Stock option plan

There will be no further stock options granted and the remaining outstanding options will be either exercised or forfeited. All options awarded have a maximum term of five years and vest in equal one-third increments on each anniversary of the grant.

Stock options are measured at fair value on the date of the grant using a Black-Scholes option pricing model, and the resulting share-based payment expense is recognized on a graded-vesting basis over the related vesting period. A 35% forfeiture rate was used to estimate the Company's share-based payment expense for the three months ended June 30, 2012 (June 30, 2011: 50%).

The following table sets forth a reconciliation of stock option plan activity through to June 30, 2012:

	Number of Options	Weighted Average Exercise Price
Outstanding at January 1, 2011	8,560,817	$ 1.33
Granted	2,609,500	2.45
Exercised	(396,431)	1.01
Cancelled/Converted	(746,250)	1.69
Outstanding at December 31, 2011	10,027,636	$ 1.60
Granted	–	–
Exercised	(61,666)	1.82
Cancelled/Converted	(8,911,536)	1.49
Outstanding at June 30, 2012	**1,054,434**	**$ 2.56**

There were 242,033 options exercisable as at June 30, 2012 (3,660,864 – December 31, 2011) at an average exercise price of $2.44 per share ($1.21 – December 31, 2011).

	June 30, 2012			December 31, 2011		
Exercise Price	**Number of Options Outstanding**	**Weighted Average Exercise Price $**	**Weighted Average Years to Expiry**	Number of Options Outstanding	Weighted Average Exercise Price $	Weighted Average Years to Expiry
$0.48 – 0.91	**10,000**	**0.61**	**1.74**	1,115,168	0.69	2.33
$0.93 – 1.24	**30,000**	**1.05**	**2.44**	1,685,334	1.02	2.25
$1.31 – 1.51	**16,667**	**1.31**	**2.76**	2,929,734	1.34	3.34
$1.97 – 3.32	**997,767**	**2.65**	**3.9**	4,297,400	2.25	4.18
	1,054,434	**2.56**	**3.82**	10,027,636	1.60	3.40

Twin Butte recorded share-based payment expense of $2.5 million for the six months ended June 30, 2012 (June 30, 2011 Nil) and a reversal of $1.6 million for the cancellation/conversion of the options.

Net Income Per Share

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

For the period	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Net Income for the period	**$ 29,340**	$ 12,765	**$ 44,323**	$ 10,504
Weighted average number of basic shares (000's)	**192,023**	134,329	**188,881**	132,453
Effect of dilutive securities:				
Employee stock options (000's)	**1,143**	3,083	**1,447**	3,074
Weighted average number of diluted shares (000's)	**193,166**	137,412	**190,328**	135,527
Net Income per share basic ($)	**0.15**	0.10	**0.23**	0.08
Net Income per share diluted ($)	**0.15**	0.09	**0.23**	0.08

Total weighted average shares issuable in exchange for the options and restricted share awards which were 344,000 shares and included in the diluted net income per share calculation for the three months ended June 30, 2012.

NOTE 10. GENERAL & ADMINISTRATION ("G&A") EXPENSES

For the period	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Staff salaries and benefits	**$ 1,891**	$ 2,026	**$ 4,041**	$ 3,554
Rent and insurance	**352**	175	**741**	358
Office and other costs	**999**	813	**2,378**	1,837
Capitalized "G&A"	**(766)**	(675)	**(1,564)**	(1,289)
Capitalized overhead recoveries	**(452)**	(599)	**(1,129)**	(1,125)
	$ 2,024	$ 1,740	**$ 4,467**	$ 3,335

NOTE 11. FINANCE EXPENSE

For the period	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Accretion on decommissioning provision	**$ 443**	$ 264	**$ 682**	$ 528
Interest and bank charges	**1,356**	863	**2,712**	1,613
Total	**$ 1,799**	$ 1,127	**$ 3,394**	$ 2,141

NOTE 12. SUPPLEMENTAL CASH FLOW INFORMATION

For the period	Three months ended June 30		Six months ended June 30	
	2012	2011	**2012**	2011
Changes in non-cash working capital:				
Accounts receivable	**$ 963**	$ (3,344)	**$ 7,143**	$ 2,618
Deposits and prepaid expenses	**407**	85	**(628)**	95
Accounts payable and accrued liabilities, and cash dividend payable	**(938)**	2,809	**1,966**	9,352
	$ 432	$ (450)	**$ 8,481**	$ 12,065
Changes in non-cash working capital relating to:				
Operating activities	**$ (2,057)**	$ 77	**$ 61**	$ 8,044
Investing activities	**2,477**	(527)	**5,533**	4,021
Financing activities	**12**	–	**2,887**	–
	$ 432	$ (450)	**$ 8,481**	$ 12,065

NOTE 13. RELATED PARTY TRANSACTIONS

During the six month period ended June 30, 2012, the Company incurred costs totaling $3.4 million ($5.2 million – December 31, 2011) for oilfield services and legal counsel rendered by three companies of which an officer and director of Twin Butte is a director. These costs were incurred in the normal course of business. As at June 30, 2012, the Company had $1.0 million ($0.1 million – December 31, 2011) included in accounts payable and accrued liabilities related to these transactions.

NOTE 14. COMMITMENTS AND CONTINGENCIES

The Company had contractual obligations and commitments for base office rent and equipment as follows:

	Jun 30 2012	Dec 31 2011
2012	**584**	764
2013	**334**	–
2014	**254**	–
2015	**231**	–
Thereafter	**–**	–

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 legal provision.

NOTE 15. SUBSEQUENT EVENTS

Crude Oil Sales Price Derivative Contract

Subsequent to June 30, 2012 the Company entered into the following crude oil and natural gas price derivatives:

Daily barrel (bbl) quantity	Term of contract	Fixed price per bbl (CAD)	Fixed $ WCS vs. bbl (WTI)	Fixed call price per barrel (WTI)
1000	January 1, 2013 to December 31, 2013	$ 92.00 Cdn		
1000	January 1, 2013 to December 31, 2013	$ 94.10 Cdn		
1300	January 1, 2013 to December 31, 2013			$ 105.00
1300	January 1, 2014 to December 31, 2014			$ 110.00
4300	October 1, 2012 to December 31, 2012		$ (21.42)	

Daily giga-joule ("GJ") quantity	Term of contract	Fixed price per GJ (AECO Monthly)	Fixed call price per barrel (WTI)
7,800	January 1, 2013 to December 31, 2013	$ 4.50	

CORPORATE INFORMATION

OFFICERS

Jim Saunders
President & Chief Executive Officer

Bob Bowman
Vice President, Operations

Neil Cathcart
Vice President, Exploration

Claude Gamache
Vice President, Heavy Oil Geosciences

Preston Kraft
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 [3]
Chairman of the Board

Jim Brown [1] [3]

John Brussa [3]

Tom Greschner [2]

Jim Saunders

Warren Steckley [1] [2]

William A. (Bill) Trickett [1] [2]

Member of:

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

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STOCK EXCHANGE LISTING

TSX
Trading Symbol "TBE"