TWIN BUTTE ENERGY LTD.

Q3 2012

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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 nine months ended September 30, 2012.

	Three months ended September 30			Nine months ended September 30		
($ thousands, except per share amounts)	**2012**	2011	% Change	**2012**	2011	% Change
FINANCIAL						
Petroleum and natural gas sales	**73,386**	34,885	110%	**216,056**	105,361	105%
Funds flow [(1)]	**38,119**	14,042	171%	**98,281**	44,588	120%
Per share basic	**0.19**	0.10	86%	**0.50**	0.32	56%
Per share diluted	**0.19**	0.10	86%	**0.50**	0.32	56%
Net income (loss)	**(7,411)**	7,522	-199%	**36,912**	18,026	105%
Per share basic	**(0.04)**	0.06	-160%	**0.19**	0.14	34%
Per share diluted	**(0.04)**	0.05	-172%	**0.19**	0.13	44%
Dividends paid in total	**9,404**	–	–	**26,674**	–	–
Dividends paid in cash	**8,861**	–	–	**26,131**	–	–
Capital expenditures including E&E	**17,827**	22,079	-19%	**49,797**	47,564	5%
Corporate acquisitions [(2)]	**89,128**	–	–	**290,411**	–	–
Net debt [(3)]	**146,843**	83,857	75%	**146,843**	83,857	75%
OPERATING						
Average daily production						
Crude oil (bbl per day)	**11,589**	4,507	157%	**11,066**	4,303	157%
Natural gas (Mcf per day)	**11,695**	16,803	-30%	**14,289**	18,024	-21%
Natural gas liquids (bbl per day)	**213**	291	-27%	**277**	281	-2%
Barrels of oil equivalent (boe per day, 6:1)	**13,752**	7,599	81%	**13,724**	7,588	81%
% Oil and NGL's	**86**	63	37%	**83**	60	38%
Average sales price						
Crude oil ($ per bbl)	**64.97**	64.10	1%	**66.21**	67.33	-2%
Natural gas ($ per Mcf)	**2.42**	4.00	-40%	**2.28**	4.08	-44%
Natural gas liquids ($ per bbl)	**76.97**	78.63	-2%	**84.48**	80.51	5%
Barrels of oil equivalent ($ per boe, 6:1)	**58.01**	49.90	16%	**57.46**	50.86	13%
Operating netback ($ per boe) [(4)]						
Petroleum and natural gas sales	**58.01**	49.90	16%	**57.46**	50.86	13%
Realized (loss) gain on derivative instruments	**8.02**	2.65	203%	**5.75**	1.21	375%
Royalties	**(11.40)**	(11.30)	1%	**(12.89)**	(10.01)	29%
Operating expenses	**(18.38)**	(16.25)	13%	**(18.05)**	(15.33)	18%
Transportation expenses	**(2.45)**	(1.90)	29%	**(2.39)**	(1.80)	33%
Operating netback	**33.80**	23.10	46%	**29.88**	24.93	20%
Wells drilled						
Gross	**24.0**	42.0	-43%	**72.0**	113.0	-36%
Net	**18.0**	25.8	-30%	**54.2**	73.4	-26%
Success (%)	**100**	96	4%	**98**	96	2%
COMMON SHARES						
Shares outstanding, end of period	**217,224,921**	135,408,937	60%	**217,224,921**	135,408,937	60%
Weighted average shares outstanding – diluted	**201,321,327**	137,551,262	46%	**194,178,075**	136,219,131	43%

(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 $3 million.

(2) Corporate acquisitions include total consideration plus working capital deficiency acquired.

(3) 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.

(4) 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 THIRD QUARTER OF 2012 ARE AS FOLLOWS:

- Recorded quarterly production of 13,752 boe per day, an increase of 81 percent over Q3 2011 and a 21 percent increase in production per share from the same period of 2011.
- Increased quarterly liquids production weighting to 86 percent from 63 percent in Q3 2011.
- Generated record quarterly funds flow of $38.1 million, a 171 percent increase over Q2 2011. On a per share basis, funds flow increased by 86 percent year over year to $0.19 for the quarter.
- Executed a capital program of $17.2 million which included the drilling of 24 gross (18 net) oil wells at a 100 percent success rate.
- Completed the strategic $89.1 million acquisition of private heavy oil producer Avalon Exploration Ltd. The acquisition included approximately 1,900 bbls per day of oil production as well as over 85,000 net undeveloped acres of prospective acreage within Twin Butte's Lloydminster heavy oil area.
- Announced the strategic $126 million acquisition of private heavy oil producer Waseca Energy Inc. which closed on November 1st. The Acquisition included approximately 3,500 bbls per day of oil production as well as over 46,000 net undeveloped acres of prospective acreage within Twin Butte's Lloydminster heavy oil area.
- Paid $9.4 million in dividends ($0.015/share/month) reflecting a yield of 7.4% based on Twin Butte's September 30 closing price of $2.42. Announced an increase in the monthly dividend of 6.7 percent effective with the December 2012 dividend to $0.016/share/month.
- Maintained a strong balance sheet with quarter end net debt of $146.8 million (0.95 years of annualized cash flow) on a credit facility of $240 million. Achieved an all in payout ratio of 70 percent (77 percent year to date) with free funds flow (funds flow less cash dividend and capital) of $11.4 million for the quarter which was utilized to reduce debt.

CORPORATE

Twin Butte's third 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 sustainable.

On August 29, Twin Butte closed the strategic acquisition of a private company, Avalon Exploration for approximately $89.1 million. Avalon produced 1,900 bbls per day of conventional heavy oil and added over 85,000 net undeveloped acres in the Lloydminster area, effectively doubling Twin Butte's undeveloped heavy oil lands in this area. Twin Butte received a significant seismic data base of 556 km of proprietary data and 2,271 km of trade data. Reflected in the Company's September 30 net debt, is the assumption of approximately $34 million of net debt including transaction costs associated with the Avalon purchase. The Company issued 24.6 million shares to Avalon shareholders in consideration for the transaction.

On September 3, Twin Butte announced the strategic acquisition of a private company, Waseca Energy Inc. for approximately $126 million. The acquisition subsequently closed on November 1. Waseca has current production of 3,200 bbls per day of conventional heavy oil and added over 46,000 net of undeveloped acres in the Lloydminster area, further enhancing our undeveloped land position in the area to over 220,000 net acres. Twin Butte also received a significant seismic data base of 2,500 km of 2D data and 16 km^2 of 3D data. At closing the Company assumed approximately $46 million of net debt including transaction costs associated with the Waseca transaction. The Company issued 30.2 million shares to Waseca shareholders plus $56.7 million in consideration for the transaction.

On October 10, Twin Butte closed an acquisition of assets at Wildmere in the Company's Lloydminster heavy oil area. The transaction valued at approximately $20 million was financed with the Company's current credit facility. The property produced approximately 450 boe per day of which 80 percent was conventional heavy oil. The acquisition further strengthens the

Company's extensive drilling inventory by adding upward of 20 horizontal drilling locations targeting the Lloydminster sands. Offsetting operators have been successfully developing the play for the last few years.

The noted acquisitions materially increase the size, scope, and diversity of heavy oil lands and opportunities for Twin Butte, and firmly 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 was increased to $280 million upon the closing of the Waseca transaction. It is anticipated that net debt following the closing of the Waseca and asset transactions will be approximately $212 million.

Subsequent to closing the Waseca transaction Twin Butte will increase its monthly dividend by 6.7 percent effective with the November 2012 dividend (paid December 17) to $0.016/share/month. The increase reflects the Company's belief that the noted acquisitions have created accretive growth for Twin Butte and further strengthened the Company's ability to pay a sustainable dividend while maintaining a disciplined capital program. The Board of Directors have approved the payment of the Q1 2013 dividend at these values.

The Board of Directors approved a Dividend reinvestment plan ("DRIP") effective August 31, 2012, allowing eligible shareholders to receive shares of Twin Butte at a 5 percent discount to market in lieu of the cash distribution. Over the first three months participation has been growing from an initial 6 percent participation to current levels of approximately 16 percent. The Company intends to use the funds saved through the DRIP to strengthen the balance sheet and potentially increase the capital plan, allowing for expanded development of our significant undeveloped land position.

FINANCIAL

Consistent with the Company's expanded production base and increased liquids weighting, quarterly funds flow from operations reached a record $38.1 million in the quarter ($152.4 million annualized). This level of funds flow should provide shareholders comfort that our yearly dividend and our capital plan is sustainable long term within our funds flow. After deducting Q3 capital and cash dividends of $17.8 and $8.9 million respectfully the excess cash of $11.4 million was used for debt reduction. Year to date the Company's cash dividend and capital (excluding corporate transactions) has underspent cash flow by $24.7 million representing an all in payout ratio of 77 percent net of the DRIP. The excess cash flow has positioned the Company's balance sheet to allow maintenance of the Company's organic capital plan as well as to quickly close on opportunistic cash acquisitions. 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 $146.8 million represented 0.95 times third quarter annualized cash flow.

Twin Butte remains active on the hedging front to protect cash flow against 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 remaining 2012 and 2013 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 and 65 percent of our anticipated 2013 gas production is hedged at $4.50/GJ at AECO.

Approximately 56 percent of our estimated oil production is hedged for the last quarter of 2012 at a WCS equivalent of approximately $80 Cdn per bbl. With the majority of the Company's oil production being heavy oil priced off of the WCS benchmark we endeavor to align our hedges to this reference price.

For 2013 approximately 32 percent (39 percent for first half) of our estimated oil production is hedged at a WCS equivalent of approximately $76 Cdn per bbl. In addition 8 (10 percent for first half) percent of our estimated oil production is hedged at a WTI above $98.

OPERATIONS

During the third quarter of 2012 Twin Butte drilled 24 gross (18 net) wells with a 100 percent success rate. All wells were drilled within the Company's core heavy oil fairway where Twin Butte anticipates spending one hundred percent of its remaining 2012 and 2013 capital.

At Frog Lake, the Company's most active area for the past two years, drilling continued in Q3 with 17 gross (11 net) wells drilled successfully. The focus at Frog Lake in 2012 has been on the Rex formation which has provided very consistent results for the past two years. Step out or pool extension wells drilled over the past two quarters have provided some positive but inconsistent results. The Company plans to focus on drilling on our recently acquired lands for the next few quarters while we monitor results of our 2012 drilling program.

The majority of the remaining Q3 wells were drilled at Silverdale in Saskatchewan which continues to provide consistent drilling and production performance. Additional pool extension wells were drilled successfully at Primate in Q3 and early Q4.

Late in Q3 and early Q4 four vertical and one horizontal well was drilled on the Company's new Swimming property which was acquired in Q2. Drilling and production optimization results have been positive which will lead to additional drilling in 2013.

With the recent closing of the Avalon, Waseca, and Wildmere transactions, drilling focus will shift to the exploitation of our newly acquired undeveloped land base. It is important to note that after the recent transactions, the Company's undeveloped lands and drilling inventory has not only been significantly increased, but now provides a greater diversity of heavy oil play types which should reduce concentration risk and ultimately enhance corporate profitability. The Company's drilling inventory which currently is estimated to be over 700 net conventional vertical and horizontal heavy oil wells should provide predictable and repeatable drilling results for a number of years.

Twenty vertical wells are planned for Q4 on a variety of play types. In addition in 2013 the Company will test at least 10 exploratory prospects on the new land position. Late in Q4 Twin Butte will commence a multi-well horizontal program at the newly acquired Wildmere lands as well as at Soda Lake and Swimming. Although more expensive than the Company's historic vertical programs the expected type curves suggest similar payout times and significantly enhanced profitability from such wells.

Third quarter production was reduced from the second quarter due to wet weather conditions delaying completion and facility construction operations. Drilling results from the Q3 drilling program will largely be recognized in Q4 as wet operating conditions early in Q3 prevented timely completion of some of the new wells. As noted in our press release of August 14th our Q3 production was impacted by a major plant outage at Pincher Creek which kept approximately 525 boe per day offline for the entire quarter. Production at the property is just recommencing and should be optimized by late November.

The Company's capital (excluding corporate acquisitions) plan for 2012 will increase to approximately $94.5 million including the Wildmere assets. Based on year to date and forecast cash flow total payout ratio for 2012 (cash dividend and capital before corporate acquisitions) will be approximately 95 percent, providing a sustainable level of spending.

OUTLOOK

Production continues to grow post the closing of the recent transactions with current rates exceeding 19,000 boe per day with Pincher Creek not optimized. The Company has approved a preliminary 2013 capital and operating plan which will see approximately 110 vertical and 20 horizontal development heavy oil wells drilled in the Lloydminster area. To ensure continued growth in its drilling inventory and undeveloped lands the anticipated $110 million capital plan includes $10 million directed to land; seismic and exploratory drilling activities. Production is expected to average between 19,100 and 19,500 boe per day (90 percent oil and NGL's). Assuming a $3.00/GJ Aeco gas price; $90 WTI and $69 WCS oil pricing Twin Butte anticipates 2013 cash flow to be approximately $158 million which will be finance the capital plan and the approximate $40.3 million cash dividend, while maintaining a total payout ratio including DRIP participation under 100 percent.

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 700 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.

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.

November 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 November 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 September 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 nine 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 September 30		Nine months ended September 30	
	2012	2011	**2012**	2011
Average Twin Butte Realized Commodity Prices (1)				
Heavy oil ($ per bbl)	**64.26**	61.43	**65.22**	64.24
Light & Medium oil ($ per bbl)	**75.58**	77.10	**79.49**	80.12
Natural gas ($ per Mcf)	**2.42**	4.00	**2.28**	4.08
Natural gas liquids ($ per bbl)	**76.97**	78.63	**84.48**	80.51
Barrels of oil equivalent ($ per boe, 6:1)	**58.01**	49.90	**57.46**	50.86
(1) The average selling prices reported are before realized derivative instrument gains/losses and transportation charges.				
Benchmark Pricing				
WTI crude oil (US$ per bbl)	**92.22**	89.76	**96.21**	95.48
Edmonton crude oil (Cdn$ per bbl)	**84.79**	92.24	**87.30**	94.74
WCS crude oil (Cdn $ per bbl)	**71.01**	71.53	**75.32**	75.2
AECO natural gas (Cdn$ per Mcf) (2)	**2.20**	3.48	**2.01**	3.59
Exchange rate – (US$/ Cdn$)	**0.99**	1.02	**1.00**	1.02
(2) The AECO natural gas price reported is the average daily spot price.				
Sales				
$000's				
Heavy oil	**64,158**	21,048	**184,040**	60,781
Light & Medium oil	**5,120**	5,554	**16,695**	18,293
Natural gas	**2,600**	6,176	**8,916**	20,101
Natural gas liquids	**1,508**	2,107	**6,405**	6,186
Total petroleum and natural gas sales	**73,386**	34,885	**216,056**	105,361
Average Daily Production				
Heavy oil (bbl/day)	**10,854**	3,724	**10,299**	3,466
Light & medium oil (bbl/day)	**736**	783	**766**	837
Natural gas liquids (bbl/day)	**213**	291	**277**	281
Natural gas (Mcf/day)	**11,695**	16,803	**14,289**	18,024
Total (boe/d)	**13,752**	7,599	**13,724**	7,588
% oil and liquids production	**86%**	63%	**83%**	60%

Sales for the three months ended September 30, 2012 were $73.4 million, as compared to $34.9 million for the three months ended September 30, 2011 representing an increase of $38.5 million or 110%. This increase in revenue is attributed primarily to increased volumes from the Emerge acquisition where the acquired operations are included from January 10, 2012 and the Avalon acquisition which closed on August 29, 2012 and supplemented by drilling success. Production grew from 7,599 boe/d in the three months ended September 30, 2011 to 13,752 boe/d for the three months ended September 30, 2012. The average realized commodity price before derivative instruments increased 16% to $58.01 during the third quarter 2012, up from $49.90 in the three months ended September 30, 2011, mainly due to increases in oil prices and liquids weighting. Oil and liquids weighting increased to 86% from 63%, as a result of the 146% growth in oil production volumes. The weighting has changed mainly due to the Company's drilling program and the acquisition of both Emerge and Avalon, 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 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 nine months ended September 30, 2012 were $216.1 million, as compared to $105.4 million for the nine months ended September 30, 2011, representing an increase of $110.7 million or 105%. This increase in revenue is again attributed to production increases of 81% mainly from the Emerge and Avalon acquisitions, commodity price increase of 13%, and the increase in oil and liquids weighting from 60% to 83%. Production increased from 7,588 boe/d in 2011 to 13,724 boe/d in 2012. The average realized commodity price before hedging increased from $50.86 per boe in 2011 to $57.46 in 2012.

ROYALTIES

	Three months ended September 30		Nine months ended September 30	
$ 000's	**2012**	2011	**2012**	2011
Royalty Breakdown				
Heavy Oil	**11,355**	6,351	**38,978**	15,636
Light & Medium oil	**2,663**	966	**7,678**	3,512
Natural Gas	**(83)**	(138)	**(138)**	(390)
NGL's	**484**	719	**1,958**	1,984
Total Royalties	**14,419**	7,898	**48,476**	20,742
% of P&NG Sales	**20%**	23%	**22%**	20%
per boe	**$ 11.40**	$ 11.30	**$ 12.89**	$ 10.01

Royalties for the three months ended September 30, 2012 were $14.4 million, as compared to $7.9 million for the three months ended September 30, 2011. Royalties on an absolute basis increased as a result of increased production volumes and sales as a result of the Emerge and Avalon acquisitions. Liquids production comprised 86% of volumes for the third quarter 2012 as compared to 63% in 2011. As a percentage of sales, the average royalty rate for the third quarter of 2012 was 20% compared to 23% for the comparative period of 2011. The rate has decreased even as the Company's oil weighting and oil prices have increased significantly. Oil and liquids royalty rates were approximately 20% for the quarter, while gas royalties were approximately nil%. Twin Butte has accrued $2.0 million in royalty credits in the quarter relating to an agreement with the IOGC (Indian Oil & Gas Canada) which reduces royalty rates for new producing wells to a maximum of 10% for the first 12 months starting December 1, 2011. The legal agreements are expected to be finalized in Q4-2012 when we expect to book additional credits of up to $2.5 million.

Royalties for the nine months ended September 30, 2012 were $48.5 million, as compared to $20.7 million for the nine months ended September 30, 2011. Royalties on an absolute basis increased with increased production volumes as a result of both the Emerge and Avalon acquisitions and drilling success. With this volume growth we have seen the liquids production move to 83% of total volumes up from 59% in 2011. As a percentage of revenues, the average royalty rate for the nine month period ended September 30, 2012 was 22% compared to 20% for the comparative period of 2011. Oil and liquids royalty rates were approximately 23% for the nine months of 2012 while natural gas rates were approximately (-1)% of sales, due to the GCA credits, as compared to 25% and (-1)% 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 & Transportation Expense	Three months ended September 30				Nine months ended September 30			
(000's except per boe amounts)	**2012**	**$ per boe**	2011	$ per boe	**2012**	**$ per boe**	2011	$ per boe
Operating expenses	**23,250**	**18.38**	11,362	16.25	**67,856**	**18.05**	31,757	15.33
Transportation	**3,098**	**2.45**	1,328	1.90	**8,999**	**2.39**	3,727	1.80
Total	**26,348**	**20.83**	12,690	18.15	**76,855**	**20.44**	35,484	17.13

Operating expenses were $23.3 million or $18.38 per boe for the quarter ended September 30, 2012 as compared to $11.4 million or $16.25 per boe for the three months ended September 30, 2011. The increase on an absolute dollar basis is mainly attributable to the increased production from the Emerge and Avalon acquisitions and our drilling program. While we have been able to keep costs down at Frog Lake through initiatives summarized below we are seeing higher costs in some of our newer areas where increased volumes should allow costs to stabilize. 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 $67.9 million or $18.05 per boe for the nine months ended September 30, 2012 as compared to $31.8 million or $15.33 per boe for the nine months ended September 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 well sites. 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.

Transportation expenses for the three months ended September 30, 2012 were $3.1 million or $2.45 per boe compared to $1.3 million or $1.90 per boe in the prior year comparative quarter. The increase on an absolute basis is mainly attributable to the Emerge and Avalon acquisitions 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 nine months ended September 30, 2012 were $9.0 million or $2.39 per boe compared to $3.7 million or $1.80 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 third quarter we have higher operating and transportation costs of $20.83 per boe as compared to $18.15 per boe for the comparable period of 2011. This increase of 15% 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 September 30		Nine months ended September 30	
$ 000's	**2012**	2011	**2012**	2011
G&A expenses	**4,194**	2,854	**11,354**	8,604
Recoveries	**(616)**	(771)	**(1,745)**	(1,898)
Capitalized G&A expenses	**(775)**	(656)	**(2,339)**	(1,944)
Total net G&A expenses	**2,803**	1,427	**7,270**	4,762
Total net G&A expenses ($/boe)	**$ 2.22**	$ 2.04	**$ 1.93**	$ 2.30
Total Emerge/Avalon transaction expenses	**782**	–	**3,006**	–

General and administrative expenses, net of recoveries and capitalized G&A, were $2.8 million or $2.22 per boe for the current quarter as compared to $1.4 million or $2.04 per boe in the prior year comparative quarter. In the third quarter the Company incurred higher costs as a result of increased staff levels around recent acquisitions, increased bonus accrual and a one-time $150k settlement of an outstanding legal dispute.

Recoveries and capitalized G&A as a percentage of gross G&A have decreased with lower capital spending as a percentage of cash flow this year. General and administrative expenses, net of recoveries and capitalized G&A, were $7.3 million or $1.93 per boe for the nine month period ended September 30, 2012 as compared to $4.8 million or $2.30 per boe in the prior period comparative period.

While total G&A costs have increased for the year due to the Emerge and Avalon acquisitions, due to additional staff and costs of running the larger operation, on a per barrel basis we have seen a decline from $2.30 to $1.93 per boe.

The Company also incurred one time transaction costs for the Emerge acquisition totaling $2.2 million and $ 0.8 million for the Avalon acquisition, including advisory, stock exchange, legal and bank fees.

SHARE-BASED PAYMENT EXPENSE

Share-based Payments	Three months ended September 30				Nine months ended September 30			
(000's except per boe amounts)	**2012**	**$ per boe**	2011	$ per boe	**2012**	**$ per boe**	2011	$ per boe
Total	**892**	**0.70**	389	0.56	**2,838**	**0.75**	934	0.45

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 the 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 September 30, 2012, the Company expensed $0.9 million in stock based compensation as compared to $0.4 million in the three month period ended September 30, 2011.

During the nine month period ended September 30, 2012, the Company expensed $2.8 million in stock based compensation as compared to $0.9 million in the prior year comparative period.

The Company granted 735,793 share awards in the third quarter of 2012 as compared to 650,000 stock option grants in the third quarter of 2011. Total share awards forfeited were 70,802 in the quarter versus nil options forfeited in the third quarter last year. At the end of the third quarter 2012, the Company has 4,011,004 share awards and 1,011,101 options outstanding.

FINANCE EXPENSE

Finance expenses	Three months ended September 30				Nine months ended September 30			
(000's except per boe amounts)	**2012**	**$ per boe**	2011	$ per boe	**2012**	**$ per boe**	2011	$ per boe
Accretion on decommissioning provision	**446**	**0.34**	271	0.38	**1,128**	**0.30**	799	0.38
Interest and bank charges	**1,061**	**0.85**	683	0.98	**3,773**	**1.00**	2,296	1.11
Total	**1,507**	**1.19**	954	1.36	**4,901**	**1.30**	3,095	1.49

For the three months ended September 30, 2012, finance charges were $1.5 million as compared to $1.0 million in the three month period ended September 30, 2011. With both the Emerge and Avalon acquisitions, average bank debt for the quarter has increased to $140 million compared to the last year's $80 million. For the nine months ended September 30, 2012, finance charges were $4.9 million as compared to $3.1 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

Financial Derivatives	Three months ended September 30				Nine months ended September 30			
(000's except per boe amounts)	**2012**	**$ per boe**	2011	$ per boe	**2012**	**$ per boe**	2011	$ per boe
Realized gain (loss)	**10,145**	**8.02**	1,855	2.65	**21,604**	**5.75**	2,511	1.21
Unrealized gain (loss)	**(21,736)**	**(17.18)**	7,418	10.61	**13,999**	**3.72**	8,169	3.94
Gain (loss) on derivatives	**(11,591)**	**(9.16)**	9,273	13.26	**35,603**	**9.47**	10,680	5.15

During 2011 and 2012, the Company entered into both fixed price swaps for natural gas and crude oil and sold forward calls on oil production. As part of our financial management strategy to protect cashflows 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. Risks include 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 in the next twelve months forecasted sales volumes and 50% over 1 year out.

The Company has recognized a realized gain on financial derivatives in the amount of $10.1 million ($8.02 per boe) for the three month period ended September 30, 2012 as compared to a realized gain of $1.9 million ($2.65 per boe) realized gain for the prior quarter comparative period. This realized gain was split between a gain of $2.2 million for natural gas sales price derivatives, and a gain of $7.9 million for crude oil sales price derivatives.

The Company has recognized a realized gain on financial derivatives in the amount of $21.6 million ($5.75 per boe) for the nine month period ended September 30, 2012 as compared to a $2.5 million ($1.21 per boe) realized gain for the prior quarter comparative period. The realized gain on financial derivatives for the nine month period ended December 31, 2012 included a gain of $7.2 million for natural gas sales price derivatives, and a gain of $14.4 million for crude oil sales price derivatives.

As at September 30, 2012, the Company has a net unrealized financial derivatives asset in the amount of $8.7 million. The Company has recognized an unrealized loss on financial derivatives in the amount of $21.7 million for the three month period ended September 30, 2012 as compared to $7.4 million unrealized gain for the prior year comparative period. This reflects the increase in oil and gas prices at the end of the quarter as compared to the prior quarter.

The Company has been able to utilize Twin Butte's oil production to enhance our natural gas price for 2012 and 2013 years through the use of enhanced swaps, where we sell forward written calls on oil production for future years at prices above our budgeted pricing, and use this value to enhance the swap price we receive on natural gas sales. This increased gas price provides additional certainty to cash flow which is then recycled into an increased capital program. Twin Butte attempts to link the majority of its oil volumes to the WCS (Western Canadian Select) index which is the pricing for the basis of our heavy oil sales. This is accomplished through direct WCS pricing swaps or by hedging WTI pricing and the differential in two separate transactions.

The following is a summary of derivatives in effect as at September 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 written call price per bbl WCS	Fixed $ WCS vs. bbl (WTI)	Fair market value $ 000's
1000	November, 2012 to December 31,2012				$ (19.50)	$ (505)
3000	October 1, 2012 to December 31, 2012			$ 81.46		$ 204
4300	October 1, 2012 to December 31, 2012	$ 100.45				$ 3,728
4500	January 1, 2013 to December 31, 2013	$ 98.10				$ 6,402
1000	January 1, 2013 to December 31, 2013				$ (24.50)	$ (1,785)
1000	January 1, 2013 to June 30, 2013	$ 96.32				$ 629
1500	January 1, 2013 to March 31, 2013	$ 97.75				$ 622
1000	January 1, 2013 to March 31, 2013	$ 98.60				$ 426
3000	April 1, 2013 to June 30, 2013	$ 99.08				$ 1,351
1500	July 1, 2013 to September 30, 2013	$ 98.70				$ 674
2000	October 1, 2013 to October 31, 2013				$ (21.50)	$ (741)
500	November 1, 2013 to November 30, 2013				$ (21.00)	$ (159)
500	December 1, 2013 to December 31, 2013				$ (22.00)	$ (142)
1000	October 1, 2012 to December 31, 2012		US $ 100.00			$ (119)
1000	October 1, 2012 to December 31, 2012		US $ 110.00			$ (1,222)
1000	January 1, 2013 to December 31, 2013		US $ 110.00			$ (1,222)
1300	January 1, 2013 to December 31, 2013		US $ 105.00			$ (2,353)
1300	January 1, 2014 to December 31, 2014		US $ 110.00			$ (2,219)
Crude oil fair value position						$ 3,569

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	October 1, 2012 to December 31, 2012	$ 4.12		$ 712
6,000	October 1, 2012 to December 31, 2012	$ 4.30		$ 811
7,800	January 1, 2013 to December 31, 2013	$ 4.50		$ 3,604
Natural gas fair value position				$ 5,127

Gain/Loss on Dispositions

No gain or loss on disposition was recognized in the third 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 year to date. 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 September 30, 2012, depletion and depreciation of capital assets was $23.6 million or $18.63 per boe compared to $9.6 million or $13.70 per boe for the three month period ended September 30, 2011. The increase is primarily due to the Emerge and Avalon acquisitions.

For the nine month period ended September 30, 2012, depletion and depreciation of capital assets was $67.2 million or $17.87 per boe compared to $27.8 million or $13.44 per boe for the nine month period ended September 30, 2011. Recent acquisitions have increased the Company's depletion rate as the cost per boe has been above our historical cost base.

INCOME TAXES

Deferred tax recovery amounted to $1.6 million for the three month period ended September 30, 2012 compared to $2.6 million expense for the three month period ended September 30, 2011. This was a result of the loss on the mark to market unrealized hedging during the quarter.

Deferred income tax expense amounted to $11.5 million for the nine month period ended September 30, 2012, compared to a deferred income tax expense in the amount of $6.3 million for the nine month period ended September 30, 2011. No cash income taxes were paid in 2012 and 2011.

The Company has existing tax losses and pools of approximately $550 million at September 30, 2012. 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 September 30				Nine months ended September 30			
(000's except per share amounts)	**2012**	**$/share**	2011	$/share	**2012**	**$/share**	2011	$/share
Funds flow [(1)]	**38,119**	**0.19**	14,042	0.10	**98,281**	**0.50**	44,588	0.32
Net Income (loss)	**(7,411)**	**(0.04)**	7,522	0.05	**36,912**	**0.19**	18,026	0.13

(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 September 30, 2012 was $38.1 million, an increase of 13% from the second quarter 2012 funds flow of $33.8 million. This represents $0.19 per diluted share compared to $0.10 per diluted share for the same quarter last year and $0.17 in the second quarter 2012. The increase in funds flow is again due to the Emerge and Avalon acquisitions and the increase in production to 13,752 boe/d from 7,559 boe/d.

Despite significantly higher revenues, a large unrealized mark-to-market hedging loss caused the Company to post a net loss and comprehensive loss of $7.4 million for the three month period ended September 30, 2012, equating to a basic and diluted net loss per share of $0.04, compared to net income and comprehensive income of $7.5 million for the three month period ended September 30, 2011, equating to a basic and diluted net income per share of $0.05.

Funds flow from operations for the nine month period ended September 30, 2012 was $98.3 million, an increase of 120% from the nine month period ended September 30, 2011 funds flow of $44.6 million. This also represents a 56% increase in funds flow per share, both basic and diluted of $0.50 per share for the nine month period ended September 30, 2012 compared to $0.32 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 increased commodity weighting to oil and liquids.

Funds flow from operations calculation	Nine months ended	
($000's)	**September 30, 2012**	September 30, 2011
Cash flow from operating activities	**84,532**	42,531
Expenditures on decommissioning liability	**656**	550
Change in non-cash working capital	**(13,093)**	1,507
Funds flow from operations	**98,281**	44,588

The net loss and comprehensive loss of $7.4 million for the three month period ended September 30, 2012 includes non-cash items of depletion and depreciation of $23.6 million, deferred tax recovery of $1.6 million, accretion on decommissioning provision of $0.4 million, an unrealized loss on derivative instruments of $21.7 million and share-based payments of $0.9 million.

The net income and comprehensive income of $36.9 million for the nine month period ended September 30, 2012 includes non-cash items including depletion and depreciation of $67.2 million, deferred tax expense of $11.5 million, accretion on decommissioning provision of $1.1 million, unrealized gains on financial derivatives of $14.0 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 $2.8 million.

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

($ per boe)	**Q3 2012**	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010
Petroleum and natural gas sales	**58.01**	54.33	60.23	58.22	49.90	56.36	46.34	44.18
Royalties	**(11.40)**	(12.84)	(14.52)	(11.42)	(11.30)	(9.98)	(8.73)	(8.47)
Realized gain (loss) on financial derivatives	**8.02**	6.91	2.10	(1.16)	2.65	(0.24)	1.20	2.51
Operating expenses	**(18.38)**	(17.19)	(18.62)	(16.96)	(16.25)	(14.99)	(14.73)	(13.79)
Transportation expenses	**(2.45)**	(2.26)	(2.48)	(1.96)	(1.90)	(1.63)	(1.87)	(1.65)
Operating netback [(1)]	**33.80**	28.95	26.71	26.72	23.10	29.52	22.21	22.78
General and administrative expenses	**(2.22)**	(1.57)	(2.03)	(2.18)	(2.04)	(2.53)	(2.33)	(1.87)
Transaction costs	**(0.62)**	(0.20)	(1.63)	–	–	–	–	–
Interest expense	**(1.00)**	(1.05)	(1.13)	(0.97)	(0.98)	(1.26)	(1.09)	(1.36)
Funds flow from operations [(2)]	**29.96**	26.13	21.92	23.57	20.08	25.73	18.79	19.55

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:

($ thousands, except per share amounts)	**Q3 2012**	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010
Average production (boe/d)	**13,752**	14,193	13,228	7,695	7,599	7,556	7,608	7,161
Petroleum and natural gas sales	**73,386**	70,173	72,497	41,216	34,885	38,748	31,728	29,111
Operating netback (per boe)	**33.80**	28.95	26.71	26.72	23.1	29.52	22.21	22.78
Funds flow from operations	**38,119**	33,762	26,400	16,686	14,042	17,686	12,789	12,887
Per share basic	**0.19**	0.18	0.14	0.12	0.10	0.13	0.10	0.10
Per share diluted	**0.19**	0.17	0.14	0.12	0.10	0.13	0.10	0.10
Net income (loss)	**(7,411)**	29,529	14,983	(37,047)	7,522	12,765	(2,262)	(1,148)
Per share basic	**(0.04)**	0.15	0.08	(0.27)	0.05	0.10	(0.02)	(0.01)
Per share diluted	**(0.04)**	0.15	0.08	(0.27)	0.06	0.09	(0.02)	(0.01)
Corporate acquisitions	**89,128**	–	201,283	–	–	2,388	6	21,100
Capital expenditures including E&E (net of dispositions)	**17,827**	24,976	7,916	10,125	22,154	16,316	5,847	12,340
Total assets	**690,240**	588,893	583,439	340,664	370,472	348,790	338,478	337,685
Net debt excluding financial derivatives	**146,843**	124,459	126,466	77,169	83,857	75,960	80,677	96,026

CAPITAL EXPENDITURES

During the third quarter of 2012, the Company invested $138.0 million on capital activity, which includes E&E assets and the corporate acquisition of Avalon. The Company's capital expenditures for the third quarter were focused predominantly in three areas, with drilling in the heavy oil areas of Frog Lake, 17 (11.0 net) oil wells, Freemont 3 (3.0 net) oil wells and Swimming/ Primate 4 oil wells (3.0 net).

The Company has drilled a total of 72 (54.2 net) wells in 2012, of which 100% (net) were oil wells, and 1 was Dry and Abandoned (D&A). During the nine months ended September 30, 2012, the Company has invested $41.5 million on capital activity before acquisitions. In addition, the Company completed property acquisitions and dispositions for a net outlay of $6.1 million for a total net capital investment of $47.6 million.

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

	Three months ended September 30		Nine months ended September 30	
($ 000's)	**2012**	2011	**2012**	2011
Exploration & evaluation Corporate acquisitions	**$ 30,382**	$ –	**$ 33,874**	$ –
Exploration & evaluation purchases & disposition	**644**	387	**2,183**	893
	31,026	387	**36,057**	893
Land acquisition	**7**	271	**24**	742
Geological and geophysical	**218**	206	**443**	1,073
Drilling and completions	**10,448**	14,980	**27,211**	37,870
Equipping and facilities	**5,276**	5,670	**9,831**	14,484
Other	**1,234**	952	**4,030**	2,649
Development Capital	**17,183**	22,853	**41,539**	58,604
Property acquisitions*	**–**	–	**12,845**	2,398
Property dispositions	**–**	(8)	**(6,770)**	(11,651)
	$ 17,183	$ 22,845	**$ 47,614**	$ 49,351
Company Acquisitions	**88,369**	–	**291,369**	–
Total capital expenditures	**$ 136,578**	$ 23,232	**$ 375,040**	$ 50,244

Drilling Results

Three months ended September 30	**2012**		2011	
	Gross	**Net**	Gross	Net
Crude oil	**24**	**18.0**	39	23.4
Natural gas	**–**	**–**	2	1.4
Dry and abandoned	**–**	**–**	1	1
Total	**24**	**18.0**	42	25.8
Success rate (%)		**100%**	98%	96%

Nine months ended September 30	**2012**		2011	
	Gross	**Net**	Gross	Net
Crude oil	**71**	**53.2**	108	69
Natural gas	**–**	**–**	2	1.4
Dry and abandoned	**1**	**1**	3	3
Total	**72**	**54.2**	113	73.4
Success rate (%)		**98%**	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. The Company has been able to significantly increase their undeveloped land holdings in the core Lloydminster area to approximately 308,000 acres after the Avalon acquisition.

Three months ended September 30	**2012**	2011
Gross Acres	**570,021**	308,470
Net Acres	**427,496**	225,031

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 September 30, 2012, the Company had a credit facility with a syndicate of three Canadian chartered banks in the amount of $240.0 million which was last amended in August, 2012. The credit facility is composed of a $215.0 million demand revolving operating credit facility and a $25 million operating credit line. The Company's credit facility is subject to semi-annual review by the bank; with the next semi-annual credit facility review due in November 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 September 30, 2012). The Company was in compliance with all of its financial covenants at September 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 September 30, 2012, the Company had $139.8 million drawn on its credit facility and total net debt of $146.8 million. The Company has $100.2 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 third quarter of 2012 with the completion of the Avalon acquisition 24,454,027 shares were issued from Treasury. In addition, there were 35,833 options exercised for proceeds of $42,000 and 101,658 vested share awards were also exercised.

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 November 14, 2012 the Company has 247,687,925 Common Shares, 1,007,101 stock options and 3,989,859 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 September 30, 2012, the Company incurred costs totaling $1.5 million ($3.3 million – September 30, 2011) for oilfield services and legal counsel rendered by three companies in which an officer or director of Twin Butte is also a director of one of these companies providing services to Twin Butte. These costs were incurred in the normal course of business and have been recorded at exchange amount.

During the nine month period ended September 30, 2012, the Company incurred costs totaling $4.9 million ($4.6 million – September 30, 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 September 30, 2012, the Company had $3.5 million ($0.1 million – December 31, 2011) included in accounts payable and accrued liabilities related to these transactions.

SUBSEQUENT EVENT

On November 1, 2012, Twin Butte completed the business combination with Waseca Oil & Gas Inc. ("Waseca"), which provides for the acquisition by Twin Butte of all the issued and outstanding common shares of Waseca on the basis of 0.5133 common shares of Twin Butte for each Waseca share. The initial accounting for the business combination is incomplete as the Company is in the process of evaluating the fair value of the assets acquired under IFRS in order to prepare the purchase price equation for recognition, measurement and presentation.

Upon closing of the Waseca acquisition, the Company completed an update to its bank facility with a syndicate of banks. The Company's lenders have increased the Company's total bank facility to $280 million. The demand revolving credit facility has now been replaced with a dedicated facility, and includes a revolving line of credit of $255 million and an operating line of credit of $25 million. The applicable pricing grid associated with the updated facility remained as outlined in note 7 to the financial statements.

Crude Oil Sales Price Derivative Contract

Subsequent to September 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)
2500	January 1, 2013 to December 31, 2013		-$19.33	
1500	January 1, 2013 to March 31, 2013		-$19.50	
1000	January 1, 2013 to June 30, 2013		-$19.65	

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 September 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 credit-worthy counterparties;

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

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

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

> Carrying industry standard insurance;

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

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

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 September 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 September 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 September 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*	**September 30, 2012**	December 31, 2011
ASSETS			
Current Assets			
Accounts receivable		**$ 51,046**	$ 31,731
Deposits and prepaid expenses		**6,378**	2,447
Derivative assets	*3*	**17,871**	5,449
		75,295	39,627
Non-current assets			
Deferred taxes		**–**	7,514
Derivative assets	*3*	**1,674**	–
Exploration and evaluation	*5*	**49,938**	17,044
Property and equipment	*4,6*	**563,333**	276,479
		$ 690,240	$ 340,664
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities		**$ 61,544**	$ 31,158
Bank indebtedness	*7*	**139,796**	80,188
Dividend payable		**3,258**	–
Derivative liabilities	*3*	**6,730**	6,419
		211,328	117,765
Non-current liabilities			
Derivative liabilities	*3*	**4,119**	3,102
Deferred taxes		**785**	–
Decommissioning provision	*8*	**78,534**	38,401
		294,766	159,268
Shareholders' Equity			
Share capital	*9*	**432,883**	227,520
Contributed surplus		**5,983**	7,506
Deficit		**(43,392)**	(53,630)
		395,474	181,396
		$ 690,240	$ 340,664

Commitments and contingencies (note 14)

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

STATEMENT OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(unaudited – Cdn$ thousands except per share amounts)	*Note*	Three Months Ended September 30 2012	Three Months Ended September 30 2011	Nine Months Ended September 30 2012	Nine Months Ended September 30 2011
Petroleum and natural gas sales		**$ 73,386**	$ 34,885	**$ 216,056**	$ 105,361
Royalties		**(14,419)**	(7,898)	**(48,476)**	(20,742)
Revenues		**$ 58,967**	$ 26,987	**$ 167,580**	$ 84,619
Expenses					
Operating		**23,250**	11,362	**67,856**	31,757
Transportation		**3,098**	1,328	**8,999**	3,727
General and administrative	*10*	**2,803**	1,427	**7,270**	4,762
Transaction costs		**782**	–	**3,006**	–
Share-based payments	*9*	**892**	389	**2,838**	934
Finance expense	*11*	**1,507**	954	**4,901**	3,095
Loss (gain) on derivatives	*3*	**11,591**	(9,273)	**(35,603)**	(10,680)
Exploration and evaluation	*5*	**508**	1,053	**2,664**	1,403
Gain on disposition of property and equipment	*6*	**–**	–	**(2,997)**	(2,590)
Negative goodwill	*4*	**–**	–	**(6,991)**	–
Depletion and depreciation	*6*	**23,576**	9,579	**67,207**	27,839
		68,007	16,819	**119,150**	60,247
Income (loss) before income taxes		**(9,040)**	10,168	**48,430**	24,372
Deferred tax expense (recovery)		**(1,629)**	2,646	**11,518**	6,346
Net income (loss) and comprehensive income (loss)		**$ (7,411)**	$ 7,522	**$ 36,912**	$ 18,026
Net Income (Loss) per share $					
Basic	*9*	**(0.04)**	0.06	**0.19**	0.14
Diluted	*9*	**(0.04)**	0.05	**0.19**	0.13

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

STATEMENT OF CASH FLOWS

(unaudited – Cdn$ thousands)	Note	Three Months Ended September 30 2012	Three Months Ended September 30 2011	Nine Months Ended September 30 2012	Nine Months Ended September 30 2011
Cash provided by (used in):					
OPERATING ACTIVITIES:					
Net income (loss)		**$ (7,411)**	$ 7,522	**$ 36,912**	$ 18,026
Adjustments for items not involving cash:					
Depletion and depreciation	6	**23,576**	9,579	**67,207**	27,839
Deferred tax expense (recovery)		**(1,629)**	2,646	**11,518**	6,346
Unrealized loss (gain) on derivatives	3	**21,736**	(7,418)	**(13,999)**	(8,169)
Finance expenses	11	**1,507**	954	**4,901**	3,095
Interest paid	11	**(1,061)**	(683)	**(3,773)**	(2,296)
Share-based payments	9	**892**	389	**2,838**	934
Exploration and evaluation expenses	5	**509**	1,053	**2,665**	1,403
Gain on negative goodwill	4	**–**	–	**(6,991)**	–
Gain on disposition of property and equipment	6	**–**	–	**(2,997)**	(2,590)
		38,119	14,042	**98,281**	44,588
Expenditures on decommissioning liability	8	**(499)**	(305)	**(656)**	(550)
Changes in non-cash working capital	12	**(13,154)**	(9,551)	**(13,093)**	(1,507)
		24,466	4,186	**84,532**	42,531
FINANCING ACTIVITIES					
Payment of bank indebtedness	7	**(7,354)**	9,566	**(30,051)**	(22,156)
Issuance of share capital	9	**–**	–	**–**	14,607
Issuance of share capital on exercise of stock options	9	**41**	143	**153**	385
Dividends paid		**(8,861)**	–	**(26,131)**	–
Changes in non-cash working capital		**40**	–	**2,927**	–
		(16,134)	9,709	**(53,102)**	(7,164)
INVESTING ACTIVITIES					
Expenditures on property and equipment assets		**(16,724)**	(22,080)	**(37,807)**	(56,822)
Expenditures on exploration and evaluation assets		**(644)**	–	**(2,183)**	–
Acquisitions of property and equipment	4	**–**	–	**(12,846)**	(2,394)
Proceeds on disposition of property and equipment		**–**	8	**6,355**	–
Proceeds on disposition of exploration and evaluation assets	5	**–**	–	**482**	11,651
Changes in non-cash working capital		**9,036**	8,177	**14,569**	12,198
		(8,332)	(13,895)	**(31,430)**	(35,367)
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 September 30		Nine Months Ended September 30	
(unaudited – Cdn$ thousands)	*Note*	**2012**	2011	**2012**	2011
Share capital					
Balance, beginning of period		**$ 367,058**	$ 227,291	**$ 227,520**	$ 211,538
Common shares issued for Emerge acquisition	*4*	**–**	–	**134,264**	–
Common shares issued for Avalon acquisition		**65,314**	–	**65,314**	–
Issued pursuant to the DRIP		**209**	–	**209**	–
Common shares issued under employee and option plan	*9*	**302**	207	**5,576**	545
Warrants exercised		**–**	–	**–**	15,415
Balance, end of period		**$ 432,883**	$ 227,498	**$ 432,883**	$ 227,498
Warrants					
Balance, beginning of year		**$ –**	$ –	**$ –**	$ 912
Warrants expired		**–**	–	**–**	(105)
Warrants exercised		**–**	–	**–**	(807)
Balance, end of period		**$ –**	$ –	**$ –**	$ –
Contributed surplus					
Balance, beginning of period		**$ 4,893**	$ 6,088	**$ 7,506**	$ 5,124
Share-based payments for awards exercised		**(261)**	(64)	**(6,005)**	(161)
Warrants expired		**–**	–	**–**	105
Share-based payments for awards granted		**1,351**	683	**4,482**	1,639
Balance, end of period		**$ 5,983**	$ 6,707	**$ 5,983**	$ 6,707
Deficit					
Balance, beginning of period		**$ (26,577)**	$ (24,105)	**$ (53,630)**	$ (34,609)
Dividends		**$ (9,404)**	$ –	**$ (26,674)**	$ –
Net income (loss) and comprehensive income (loss)		**(7,411)**	7,522	**36,912**	18,026
Balance, end of period		**$ (43,392)**	$ (16,583)	**$ (43,392)**	$ (16,583)

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

NOTES TO INTERIM FINANCIAL STATEMENTS

For the periods ended September 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 Corporations 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 November 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

The table below summarizes the realized and unrealized gain (loss) on derivatives:

Derivative Position

Financial Derivatives	Three months ended September 30		Nine months ended September 30	
	2012	2011	**2012**	2011
Realized gain (loss)	**10,145**	1,855	**21,604**	2,511
Unrealized gain (loss)	**(21,736)**	7,418	**13,999**	8,169
Gain (loss) on derivatives	**(11,591)**	9,273	**35,603**	10,680

As at	**September 30, 2012**	December 31, 2011
Derivatives		
Current asset	**17,871**	5,449
Non-current asset	**1,674**	–
Current liability	**(6,730)**	(6,419)
Non-current liability	**(4,119)**	(3,102)
Net derivative asset (liability) position	**8,696**	(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 written call price per bbl WCS	Fixed $ WCS vs. bbl (WTI)	Fair market value $ 000's
1000	November, 2012 to December 31,2012				$ (19.50)	$ (505)
3000	October 1, 2012 to December 31, 2012			$ 81.46		$ 204
4300	October 1, 2012 to December 31, 2012	$ 100.45				$ 3,728
4500	January 1, 2013 to December 31, 2013	$ 98.10				$ 6,402
1000	January 1, 2013 to December 31, 2013				$ (24.50)	$ (1,785)
1000	January 1, 2013 to June 30, 2013	$ 96.32				$ 629
1500	January 1, 2013 to March 31, 2013	$ 97.75				$ 622
1000	January 1, 2013 to March 31, 2013	$ 98.60				$ 426
3000	April 1, 2013 to June 30, 2013	$ 99.08				$ 1,351
1500	July 1, 2013 to September 30, 2013	$ 98.70				$ 674
2000	October 1, 2013 to October 31, 2013				$ (21.50)	$ (741)
500	November 1, 2013 to November 30, 2013				$ (21.00)	$ (159)
500	December 1, 2013 to December 31, 2013				$ (22.00)	$ (142)
1000	October 1, 2012 to December 31, 2012		US $ 100.00			$ (119)
1000	October 1, 2012 to December 31, 2012		US $ 110.00			$ (1,222)
1000	January 1, 2013 to December 31, 2013		US $ 110.00			$ (1,222)
1300	January 1, 2013 to December 31, 2013		US $ 105.00			$ (2,353)
1300	January 1, 2014 to December 31, 2014		US $ 110.00			$ (2,219)
Crude oil fair value position						$ 3,569

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	October 1, 2012 to December 31, 2012	$ 4.12		$ 712
6,000	October 1, 2012 to December 31, 2012	$ 4.30		$ 811
7,800	January 1, 2013 to December 31, 2013	$ 4.50		$ 3,604
Natural gas fair value position				$ 5,127

AECO represents the monthly index of the Alberta Natural gas price

(b) Capital management

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

	September 30, 2012	December 31, 2011
Bank indebtedness	**139,796**	80,188
Working capital deficit(surplus) (1)	**7,378**	(3,019)
Net debt	**147,174**	77,169
Shareholders' Equity	**395,474**	181,396
Net Debt to Equity	**0.37**	0.43
Total capitalization	**147,174**	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 of $6,991,000 was included in net income (loss) during the nine months ended September 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 earnings would have increased by $0.5 million for the nine months ended September 30, 2012. The transactions costs related to the acquisition amounted to $2.2 million and were expensed in the statement of income (loss) and comprehensive income (loss).

In the period from January 10, 2012 to September 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 (loss) and comprehensive income (loss).

(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 ($13.5 million was allocated to PP&E assets, $1.3 million to E&E assets, and $0.7 million in decommissioning obligation was recognized). This property acquisition was acquired with full tax pools and no working capital items.

(c) Acquisition of Avalon Exploration Ltd.

On August 29, 2012, the Company purchased all the issued and outstanding shares of Avalon Exploration Ltd. ("Avalon"), a public exploration and production company, for total consideration of $65.3 million. Avalon 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 24.6 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 Avalon:

	Total
Petroleum and natural gas properties	$ 88,369
Exploration and evaluation assets	30,247
Deferred income tax liability	(14,509)
Net working capital deficiency	(33,814)
Decommissioning obligation	(4,979)
Total net assets acquired	$ 65,314

The net working capital deficiency consists of the following:

	Total
Accounts receivable	$ 3,670
Deposits and prepaid expenses	267
Accounts payable and accrued liabilities	(6,419)
Bank indebtedness	(31,332)
Net working capital deficiency	$ (33,814)

Consideration

	Total
Common Shares (24,554,027 shares at $2.66 per share)	$ 65,314
	$ 65,314

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 our internal engineers. The decommissioning obligation was fair valued using the credit–adjusted rate of 6%. The initial accounting for the business combination is subject to further refinement as additional cost estimates and tax balances are finalized

If the acquisition had occurred on January 1, 2012, management estimates revenues would have increased by an additional $29.7 million and net earnings would have increased by $3.7 million for the nine months ended September 30, 2012. The transactions costs related to the acquisition amounted to $0.8 million and were expensed in the statement of income (loss) and comprehensive income (loss).

In the period from August 29, 2012 to September 30, 2012, the acquisition contributed revenues of $3.9 million and net earnings of $1.1 million which are included in the statement of income and comprehensive income.

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	$ 36,059
Transferred to property, plant and equipment (note 6)	(17)
Impairment	(2,797)
Dispositions	(483)
Exploration and evaluation expense – land expiries	132
Balance at September 30, 2012	**$ 49,938**

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 $2.8 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	53,980	–	53,980
Acquisitions	291,369	–	291,369
Changes in decommissioning provision	11,935	–	11,935
Transfers from evaluation assets (note 5)	17	–	17
Disposals	(7,571)	–	(7,571)
Balance at September 30, 2012	**$ 736,839**	**$ 219**	**$ 737,058**
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	67,207	–	67,207
Disposals	(4,331)		(4,331)
Balance at September 30, 2012	**$ 173,506**	**$ 219**	**$ 173,725**
Net Carrying Value			
December 31, 2010	287,547	14	287,561
December 31, 2011	276,479	–	276,479
September 30, 2012	**563,333**	**–**	**563,333**

The Company has capitalized $2.3 million of general and administrative expenses directly related to development and production activities for the nine months ended September 30, 2012 ($2.6 million – December 31, 2011). $1.7 million was capitalized for share based expenses for the nine months ended September 30, 2012 ($0.7 million – September 30, 2011).

Future development costs on proved plus probable undeveloped reserves of $216 million as at September 30, 2012 are included in the calculation of depletion ($153.1 million – December 31, 2011).

During the nine months ended September 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 for the nine months ended September 30, 2012 ($2.6 million – December 31, 2011). There were no indicators of impairment at September 30, 2012.

NOTE 7. BANK INDEBTEDNESS

As at September 30, 2012, the Company had a $240 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 0.50%. The effective rate for the nine months ended September 30, 2012 was 3.5% (3.5% – September 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 is subject to semi-annual review by the bank, with the last semi-annual credit facility review approved in August 2012.

As at September 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 $78.5 million at September 30, 2012 ($38.4 million – December 31, 2011), based on a total future liability of $103.4 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	September 30, 2012	December 31, 2011
Decommissioning provision, beginning of period	**$ 38,401**	$ 30,274
Liabilities incurred	**2,276**	2,442
Liabilities settled	**(656)**	(1,067)
Liabilities acquired from acquisitions	**28,776**	276
Liabilities reduced from dispositions	**(378)**	(1,263)
Effect of change in risk free rate	**13,966**	5,365
Revisions in estimated cash outflows	**(4,979)**	1,296
Accretion of decommissioning provision	**1,128**	1,078
Decommissioning provision, end of period	**$ 78,534**	$ 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
Shares issued pursuant to acquisition of Avalon	24,554	65,314
Share awards issued under employee plan	2,970	5,350
Issued pursuant to the DRIP	75	209
Common shares issued under option plan	68	226
Balance at September 30, 2012	**217,225**	**432,883**

During the third quarter 2012, Twin Butte completed the acquisition of Avalon by issuing 24,554,027 shares.

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

For the nine months there were also 2,969,436 share awards exercised by employees and 68,333 stock options exercised for $0.2 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 nine months ended September 30, 2012 totaled $26.7 million, equivalent to $0.135 per share ($Nil – December 31, 2011). Twin Butte is increasing its monthly dividend by 6.7 percent from $0.015 to $0.016 per issued and outstanding common share starting to shareholders of record November 30, 2012.

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 21,722,492 (13,295,000 – September 30, 2011). As at September 30, 2012 there were 4,011,004 common shares awards, included reinvested dividends, outstanding (Nil – September 30, 2011) and 1,011,101 (9,591,836 – September 30, 2011) common shares options reserved for issuance under the option plan or a total of 2.3% of outstanding shares.

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

	Restricted share awards	Weighted average fair value at grant date
Outstanding at January 1, 2012	–	$ –
Converted	4,638,938	1.50
Granted	2,833,137	2.44
Exercised	(3,234,249)	1.12
Reinvested dividends	198,749	2.61
Forfeited	(425,571)	2.18
Outstanding at September 30, 2012	4,011,004	$ 2.45

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). Twin Butte recorded share-based payment expense of $2.8 million for the nine months ended September 30, 2012 (September 30, 2011 – Nil) including a reversal of $1.6 million for the cancellation/conversion of the options.

A 35% forfeiture rate was used to estimate the Company's share-based payment expense for the three months ended September 30, 2012 (September 30, 2011: 50 %).

(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

The following table sets forth a reconciliation of stock option plan activity through to September 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	(97,499)	1.58
Cancelled/Converted	(8,919,036)	1.49
Outstanding at September 30, 2012	**1,011,101**	**$ 2.61**

There were 305,366 options exercisable as at September 30, 2012 (3,660,864 – December 31, 2011) at an average exercise price of $2.63 per share ($1.21 – December 31, 2011).

	September 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	–	–	–	1,115,168	0.69	2.33
$0.93 – 1.24	**20,000**	**1.09**	**2.21**	1,685,334	1.02	2.25
$1.31 – 1.51	**13,334**	**1.31**	**2.51**	2,929,734	1.34	3.34
$1.97 – 3.32	**977,767**	**2.65**	**3.65**	4,297,400	2.25	4.18
	1,011,101	**2.63**	**3.60**	10,027,636	1.60	3.40

Net Income (loss) 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 September 30		Nine months ended September 30	
	2012	2011	**2012**	2011
Net income (loss) for the period	**$ (7,411)**	$ 7,522	**$ 36,912**	$ 18,026
Weighted average number of basic shares (000's)	**201,321**	135,380	**193,058**	133,439
Effect of dilutive securities:				
Employee stock options (000's)	–	2,171	**1,120**	2,780
Weighted average number of diluted shares (000's)	**201,321**	137,551	**194,178**	136,219
Net income (loss) per share basic ($)	**(0.04)**	0.06	**0.19**	0.14
Net income (loss) per share diluted ($)	**(0.04)**	0.05	**0.19**	0.13

Restricted shares and options have been excluded from the calculation of dilutive net income (loss) per share for the three months ended September 30, 2012 as the impact would behave been anti-dilutive. Total weighted average shares issuable in exchange for the restricted shares and options and excluded from the dilutive net income (loss) per share calculation for the three months ended September 30, 2012 was 3.6 million shares.

Total shares issuable in exchange for the restricted shares and options and excluded from the diluted net income (loss) per share calculation for the nine months ended September 30, 2012 was 0.4 million shares (September 30, 2011 – 5.9 million).

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

For the period	Three months ended September 30		Nine months ended September 30	
	2012	2011	**2012**	2011
Staff salaries and benefits	**$ 2,644**	$ 1,623	**$ 6,734**	$ 5,177
Rent and insurance	**224**	169	**799**	527
Office and other costs	**1,326**	1,062	**3,821**	2,899
Capitalized "G&A"	**(775)**	(656)	**(2,339)**	(1,944)
Capitalized overhead recoveries	**(616)**	(771)	**(1,745)**	(1,897)
	$ 2,803	$ 1,427	**$ 7,270**	$ 4,762

NOTE 11. FINANCE EXPENSE

For the period	Three months ended September 30		Nine months ended September 30	
	2012	2011	**2012**	2011
Accretion on decommissioning provision	**$ 446**	$ 271	**$ 1,128**	$ 799
Interest and bank charges	**1,061**	683	**3,773**	2,296
Total	**$ 1,507**	$ 954	**$ 4,901**	$ 3,095

NOTE 12. SUPPLEMENTAL CASH FLOW INFORMATION

For the period	Three months ended September 30		Nine months ended September 30	
	2012	2011	**2012**	2011
Changes in non-cash working capital:				
Accounts receivable	**$ (5,420)**	$ (6,118)	**$ 1,723**	$ (3,500)
Deposits and prepaid expenses	**(2,502)**	425	**(3,130)**	520
Accounts payable and accrued liabilities, and cash dividend payable	**3,844**	4,024	**5,810**	13,376
	$ (4,078)	$ (1,669)	**$ 4,403**	$ 10,396
Changes in non-cash working capital relating to:				
Operating activities	**$ (13,154)**	$ (9,551)	**$ (13,093)**	$ (1,507)
Investing activities	**9,036**	7,882	**14,569**	11,903
Financing activities	**40**	–	**2,927**	–
	$ (4,078)	$ (1,669)	**$ 4,403**	$ 10,396

NOTE 13. RELATED PARTY TRANSACTIONS

During the nine month period ended September 30, 2012, the Company incurred costs totaling $4.9 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 September 30, 2012, the Company had $3.5 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:

($ thousands)	2012	2013	2014	2015	2016	2017	2018	thereafter
	296	1,067	1,182	1,173	1,175	1,196	498	–

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

On November 1, 2012, Twin Butte completed the business combination with Waseca Oil & Gas Inc. ("Waseca"), which provides for the acquisition by Twin Butte of all the issued and outstanding common shares of Waseca on the basis of 0.51 common shares (30,222,481 issued) of Twin Butte for each Waseca share plus cash of $56.7 million. The initial accounting for the business combination is incomplete as the Company is in the process of evaluating the fair value of the assets acquired under IFRS in order to prepare the purchase price equation for recognition, measurement and presentation in the Company's financial results for the year ended December 31, 2012.

Upon closing of the Waseca acquisition, the Company completed an update to its bank facility with a syndicate of banks. The Company's lenders have increased the Company's total bank facility to $280 million. The demand revolving credit facility has now been replaced with a dedicated facility, and includes a revolving line of credit of $255 million and an operating line of credit of $25 million. The applicable pricing grid associated with the updated facility remained as outlined in note 7 to the financial statements.

Crude Oil Sales Price Derivative Contract

Subsequent to September 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)
2500	January 1, 2013 to December 31, 2013		$ (19.33)
1500	January 1, 2013 to March 31, 2013		$ (19.50)
1000	January 1, 2013 to June 30, 2013		$ (19.65)

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

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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