TWIN BUTTE
ENERGY LTD.

ANNUAL REPORT 2012

HIGHLIGHTS

	Three months ended December 31			Twelve months ended December 31		
	2012	2011	% Change	**2012**	2011	% Change
FINANCIAL *($000's, except per share amounts)*						
Petroleum and natural gas sales	**88,673**	41,216	115%	**304,729**	146,577	108%
Funds flow (1)	**37,754**	16,686	126%	**136,034**	61,272	122%
Per share basic	**0.16**	0.12	31%	**0.67**	0.45	49%
Per share diluted	**0.16**	0.12	31%	**0.66**	0.45	47%
Net income (loss)	**(5,381)**	(37,047)	85%	**31,530**	(19,021)	266%
Per share basic	**(0.02)**	(0.27)	92%	**0.15**	(0.14)	207%
Per share diluted	**(0.02)**	(0.27)	92%	**0.15**	(0.14)	207%
Dividends declared	**10,579**	–	–	**37,249**	–	–
Dividends declared, Post DRIP	**9,443**	–	–	**35,573**	–	–
Capital expenditures (2)	**37,307**	10,056	271%	**86,023**	69,272	24%
Corporate acquisitions (2)	**134,972**	–	–	**428,392**	–	–
Net debt (3)	**201,703**	77,168	161%	**201,703**	77,168	161%
OPERATING						
Average daily production						
Crude oil (bbl per day)	**15,122**	4,620	227%	**12,085**	4,382	176%
Natural gas (Mcf per day)	**13,174**	16,628	-21%	**14,009**	17,673	-21%
Natural gas liquids (bbl per day)	**213**	304	-30%	**261**	287	-9%
Barrels of oil equivalent (boe per day, 6:1)	**17,531**	7,695	128%	**14,681**	7,615	93%
% Oil and NGL's	**87%**	64%	37%	**84%**	61%	37%
Average sales price						
Crude oil ($ per bbl)	**59.60**	78.36	-24%	**64.13**	70.26	-9%
Natural gas ($ per Mcf)	**3.52**	3.51	0%	**2.57**	3.95	-35%
Natural gas liquids ($ per bbl)	**76.01**	91.12	-17%	**82.74**	83.34	-1%
Barrels of oil equivalent ($ per boe, 6:1)	**54.98**	58.22	-6%	**56.71**	52.74	8%
Operating netback ($ per boe) (4)						
Petroleum and natural gas sales	**54.98**	58.22	-6%	**56.71**	52.74	8%
Realized (loss) gain on derivative instruments	**4.83**	(1.16)	516%	**5.47**	0.61	797%
Royalties	**(9.83)**	(11.42)	-14%	**(11.97)**	(10.37)	15%
Operating expenses	**(19.73)**	(16.96)	16%	**(18.55)**	(15.75)	18%
Transportation expenses	**(2.82)**	(1.96)	44%	**(2.52)**	(1.84)	37%
Operating netback	**27.43**	26.72	3%	**29.14**	25.39	15%
Wells drilled						
Gross	**23.0**	12.0	92%	**95.0**	125.0	-24%
Net	**23.0**	7.5	207%	**77.2**	80.9	-5%
Success (%)	**87**	100	-13%	**96**	96	0%
Common Shares						
Shares outstanding, end of period	**248,311,634**	135,418,937	83%	**248,311,634**	135,418,937	83%
Weighted average shares outstanding – diluted	**239,331,527**	137,313,978	74%	**205,581,356**	136,507,998	51%

(1) Funds flow from operations and funds flow from operations netback are non-GAAP 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 $4.2 million for the year.

(2) Corporate acquisitions is a non-GAAP measure and includes total consideration plus working capital deficiency acquired in a corporate acquisition. Capital expenditures is a non-GAAP measure calculated as the purchase or sale price of an asset, plus development capital expenditures added to PP&E. Corporate acquisitions are excluded from this measure.

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

REPORT TO SHAREHOLDERS

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

- Demonstrated a sustainable dividend paying model with a payout ratio of 91 percent and a payout ratio net of the DRIP, of 89 percent in 2012
- Record annual and quarterly production of 14,681 boe per day (an increase of 93% over 2011; or 28% on a per share basis) and 17,531 boe per day (an increase of 128% over Q4 2011).
- Increased annual and quarterly liquids production weightings to 84% (increased from 61% in 2011) and 87% (increased from 64% in Q4 2011), respectively.
- Generated record annual and quarterly funds flow of $136.0 million (122% increase over 2011) and $37.8 million (increase of 126% over Q4 2011). On a per share basis, funds flow increased by 49% year over year to $0.67, and by 31% when comparing fourth quarter 2012 to 2011, or $0.16 vs. $0.12 per share.
- Executed a net organic capital program of $58.4 million which included the drilling of 95 gross (77.2 net) wells at a 96 percent success rate. Additionally closed two complementary asset transactions valued at $34.5 million; three noncore asset dispositions valued at $6.9 million; and three strategic corporate transactions valued at $428 million.
- Grew undeveloped lands in the Company's Lloydminster core heavy oil area from 30,000 to 222,500 net undeveloped acres with drilling inventory growing to in excess of 700 locations.
- Maintained a solid balance sheet with year end 2012 net debt of $201.7 million compared to an existing credit facility of $280 million.

CORPORATE

As highlighted in the Company's year-end financial and operating results, 2012 was another year of positive growth and transition including the increase of our oil and liquids ratio to 84 percent from 61 percent in 2011. In January 2012 Twin Butte commenced paying a dividend of $0.18 per year or $0.015 per month. In November, largely based on the success of three accretive corporate transactions completed in 2012 the Company increased the dividend by 6.7 percent to $0.192 per year.

Twin Butte completed three strategic corporate transactions valued at $428 million as well as two complementary asset transactions valued at $34.5 million. These transactions significantly increased the size, scope, and diversity of heavy oil lands and opportunities for Twin Butte, and firmly established Twin Butte as a significant operator in the area. Drilling to date on all transactions has proved very positive. Twin Butte remains very committed to dividend sustainability and moderate growth through its organic capital plan but strongly believes accretive acquisitions will continue to boost the Company's undeveloped land and drilling inventory and potentially add more significant per share growth.

FINANCIAL

Consistent with the Company's increasing production volumes and liquids weighting, quarterly funds flow from operations continue to increase, the fourth quarter $37.8 million being the highest quarter ever achieved. Yearly funds flow hit a record of $136.0 million, a 122 percent increase from 2011 and a 49 percent increase in funds flow per share from 2011.

Twin Butte's fourth quarter and full year 2012 financial and operating results demonstrate the Company's ability to pay a sustainable dividend and maintain a strong balance sheet while completing a disciplined efficient capital plan. The Company paid $37.3 million in dividends ($35.6 million post DRIP) in 2012 which when combined with its organic capital expenditures of $58.4 million and two complementary assets acquisitions of $34.5 million as well as three noncore asset dispositions valued at $6.9 million generated one of the industry's lowest total payout ratios of 89 percent. The previously announced change to Twin Butte's capital spending demonstrates our commitment to preserving our dividend payments through a disciplined approach to capital spending. Cash flow generated from operations will preserve the Company's balance sheet and pay the monthly dividend with remaining dollars being directed into the capital plan. By remaining disciplined and true to form Twin Butte will continue to protect the long term sustainability of the dividend.

The Company's balance sheet remains very strong. Year-end net debt of $201.7 million represented 1.3 times Q4 annualized cash flow with our existing credit facility currently at $280 million. It is anticipated the Company's cash flow in the first quarter of 2013 will exceed dividend payments and net capital expenditures (net of dispositions) thereby providing further reduction in net debt.

Even with the volatility of price differentials from WTI to the WCS Canadian heavy index Twin Butte's 2013 cash flow forecast of $130 million is protected with our hedging program. Currently the Company has approximately 52 percent of its heavy oil volumes for 2013 hedged at an average WCS price of $75.78, and an additional 9 percent of oil volumes hedged at an average WTI price of $96.59. On the natural gas side Twin Butte has approximately 65 percent of expected 2013 volumes hedged at a price of $4.50/gj, therefore the hedging program continues to provide good downside support for commodity pricing. At the current annual dividend rate of $0.192 per share this cash flow forecast suggests an all-in (dividend and capital expenditure) payout ratio of less than 100 percent of cash flow, one of the lowest of the dividend paying E&P companies.

OPERATIONS

During 2012 Twin Butte drilled 95 gross (77.2 net) wells with a 96 percent success rate demonstrating the predictable and repeatable potential of the Company's drilling inventory which currently is estimated to be over 700 net conventional heavy oil wells. All wells drilled in 2012, were within the Company's core heavy oil fairway. It is anticipated one hundred percent of Twin Butte's 2013 capital will be spent in this area representing approximately 90 net wells.

At Frog Lake, the Company's most active area in 2012, 46 gross (28.7 net) wells were drilled at an 86 percent success rate. The Rex formation was the primary focus in 2012 which has provided very consistent results for the past two years. Twin Butte's plans for the next round of drilling at Frog Lake will focus on drilling the GP formation horizontally. In late 2011, the Company drilled a horizontal GP well which after 16 months of production has proved the economic viability of a larger scale program. It is anticipated upward of 10 additional horizontal wells will be drilled at Frog Lake before year end.

At Primate in Western Saskatchewan, the Company's second most active area in 2012, 14 gross (14 net) successful wells were drilled in 2012. This drilling in combination with the installation of water disposal facilities allowed Twin Butte to materially grow production from 1,100 bbls per day in early 2012 to 3,400 bbls per day. Over 2012 this property produced 1 MMbbls of oil generating in excess of $32 million of cash flow. Unfortunately Twin Butte encountered some reservoir performance issues in late December and early January that reduced property production to approximately 2,500 bbls per day. Even though the property had suffered a drop in production the Company's yearend independent reserve evaluation increased property reserves from December 31, 2011 to December 31, 2012 by 350 MBBls after production of 1 MMbbls. The years drilling and positive property performance had enhanced reserves year on year by 1.4 MMbbls. Since the announcement in late January the property has stabilized and production has increased slightly with current rates of approximately 2,700 bbls per day. Twin Butte will continue to monitor and optimize the property's production to ensure continued long term reserve and cash flow optimization.

Outside of Frog Lake and Primate, the Company was very active in Western Saskatchewan, drilling on the acquired properties from Emerge, Avalon, and Waseca. This activity has continued through early 2013 with 22 successful wells drilled to date in this area. A series of exploratory wells will be drilled this summer on the acquired lands to continue with the derisking of the lands and the long term enhancement of the Company's drilling inventory.

At Swimming in Alberta, a property acquired in April 2012, through a combination of well optimization and the drilling of 6 gross (6 net) wells, production has more than doubled from just over 300 bbls per day to approximately 650 bbls per day. Plans are to remain active on this property through 2013, with a number of vertical and horizontal development and extension wells planned.

The greater Silverdale area was also an active area in 2012 with 10 gross (10 net) successful wells being drilled.

As part of the planned 2013 horizontal program, Twin Butte has recently drilled four horizontal test wells in various strategic areas in the greater Lloydminster area. Testing of these wells continues but early positive results from drilling in the first quarter at Wildmere, has led to the initiation of a second round of drilling on the property. Twin Butte has recently commenced a two to three well program at Wildmere which is anticipated to lead to a minimum 8 well program post breakup.

To optimize the Company's heavy oil pricing approximately 15 to 20 percent of its heavy barrels are being transported via rail car. This marketing operation has generated an increase of approximately $4.00 per barrel net to the Company on these volumes. Early in the second quarter of 2013, Twin Butte will complete construction of a cleaning/staging facility at Lashburn which should allow a potential doubling of its rail car shipments. Twin Butte will also continue with its hedging program, looking to lock in cash flow levels that will provide sustained positive corporate netbacks.

OUTLOOK

Twin Butte will continue to execute its business plan in 2013. We believe the combination of a sustainable dividend and moderate per share growth will continue to attract investor interest. We remain committed to continually enhance the Company's asset quality through organic growth and strategic acquisitions.

Twin Butte remains 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's employees, executive, and Board have continued to work very diligently throughout 2012 to achieve the Company's success. The team remains extremely motivated to meet and exceed the expectations it has set and to deliver strong returns to the shareholders. Our thanks go out to all who have contributed in our success.

ABOUT TWIN BUTTE

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

Jim Saunders
President and Chief Executive Officer

March 21, 2013

Forward-Looking Statements

In the interest of providing Twin Butte's shareholders and potential investors with information regarding Twin Butte, 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: the Company's expectations on well declines; future dividend levels; cash flow forecasts; 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; future results from operations and operating metrics, including future production growth and other matters set forth under the heading "Outlook" herein, including estimated budget levels and targeted pay-out ratio in respect of the payment of dividends. 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, Twin Butte has 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; Twin Butte's ability to obtain equipment in a timely manner to carry out development activities; decline rates based on analogous information; our ability to market its oil and natural gas successfully to current and new customers; the impact of increasing competition; Twin Butte's ability to obtain financing on acceptable terms; and Twin Butte's 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: further instability in the production volumes at the Company's Primate property; the risks associated with the oil and gas industry; commodity prices; operational risks in exploration; development and production; delays or changes in plans; risks associated with the uncertainty of reserve estimates; health and safety risks, and; the uncertainty of estimates and projections of production, costs and expenses. 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. The recovery and reserve estimates of Twin Butte's reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. 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.

Operating Netback

The reader is also cautioned that this report contains the term operating netback, which is not a recognized measure under GAAP and is calculated as a period's sales of petroleum and natural gas, net of royalties less net production and operating expenses as divided by the period's sales volumes. Management uses this measure to assist them in understanding Twin Butte's profitability relative to current commodity prices and it provides an analysis tool to benchmark changes in operational performance against prior periods and to peers on a comparable basis. Readers are cautioned, however, that this measure should not be construed as an alternative to other terms such as net income determined in accordance with GAAP as a measure of performance. Twin Butte's method of calculating this measure may differ from other companies, and accordingly, they may not be comparable to measures used by other companies.

Reader Advisory

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

Dated as of March 21, 2013

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 audited financial statements of the Company for the twelve months ended December 31, 2012 and the audited financial statements and MD&A for the twelve months 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-GAAP Measures – Certain measures in this document do not have a standardized meaning as prescribed by IFRS, such as operating netback, funds flow from operations, funds flow per share, payout ratio, total payout ratio, and net debt and therefore are considered non-GAAP measures. The Management's Discussion and Analysis ("MD&A") contains the term funds flow from operations or funds flow which should not be considered an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with IFRS as an indicator of the Company's performance. All references to funds flow from operations or funds flow throughout this report are based on cash flow from operating actives before changes in non-cash working capital and expenditures on decommissioning liabilities. 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 to 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.

2012 OVERVIEW

Twin Butte experienced significant growth in 2012, through development drilling, various asset acquisitions and with the corporate acquisitions of Emerge Oil & Gas Inc. ("Emerge") on January 10, 2012; Avalon Exploration Ltd. ("Avalon") on August 29, 2012; and Waseca Oil & Gas Inc. ("Waseca") on November 1, 2012.

These acquisitions translated into increased cash flow and combined with controlled capital spending allowed the Company to increase the per share monthly dividend to $0.016/month ($0.192/year), in November 2012.

PETROLEUM AND NATURAL GAS SALES

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

	Three months ended December 31		Twelve months ended December 31	
	2012	2011	**2012**	2011
Sales *($000's)*				
Heavy oil	**78,268**	26,382	**262,316**	87,163
Light & Medium oil	**4,650**	6,917	**21,338**	25,211
Natural gas	**4,263**	5,367	**13,178**	25,467
Natural gas liquids	**1,492**	2,550	**7,897**	8,736
Total petroleum and natural gas sales	**88,673**	41,216	**304,729**	146,577
Average Daily Production				
Heavy oil (bbl/day)	**14,450**	3,769	**11,343**	3,542
Light & medium oil (bbl/day)	**672**	851	**742**	840
Natural gas (Mcf/day)	**13,174**	16,628	**14,009**	17,673
Natural gas liquids (bbl/day)	**213**	304	**261**	287
Total (boe/d)	**17,531**	7,695	**14,681**	7,615
% oil and liquids production	**87%**	64%	**84%**	61%
Average Twin Butte Realized Commodity Prices [(1)]				
Heavy oil ($ per bbl)	**58.88**	76.09	**63.19**	67.42
Light & Medium oil ($ per bbl)	**75.14**	88.38	**78.50**	82.23
Natural gas ($ per Mcf)	**3.52**	3.51	**2.57**	3.95
Natural gas liquids ($ per bbl)	**76.01**	91.12	**82.74**	83.34
Barrels of oil equivalent ($ per boe, 6:1)	**54.98**	58.22	**56.71**	52.74
[(1)] The average selling prices reported are before realized derivative instrument gains/losses and transportation charges.				
Benchmark Pricing				
WTI crude oil (US$ per bbl)	**88.18**	94.06	**94.21**	95.12
Edmonton crude oil (Cdn$ per bbl)	**84.47**	97.86	**86.59**	95.52
WCS crude oil (Cdn$ per bbl)	**70.50**	86.91	**74.12**	78.13
AECO natural gas (Cdn$ per Mcf) [(2)]	**3.05**	3.04	**2.21**	3.45
Exchange rate (US$/Cdn$)	**0.99**	0.98	**1.00**	1.01

[(2)] The AECO natural gas price reported is the average daily spot price.

Sales for the three months ended December 31, 2012 were $88.7 million, as compared to $41.2 million for the three months ended December 31, 2011 representing an increase of $47.5 million or 115%. This increase in sales is attributed to increased heavy oil volumes from acquisitions and drilling successes, which added 9,836 boe/d compared to the prior year quarter. Production increased from 7,695 boe/d in the three months ended December 31, 2011 to 17,531 boe/d for the three months ended December 31, 2012. These production increases were partially offset by decreases in Twin Butte's average realized commodity price for oil.

Excluding the impact of derivative instruments, the average realized commodity price decreased by 6% from $58.22 in the fourth quarter 2011 to $54.98 during the fourth quarter 2012. This reduction in realized price is due to a weak Canadian oil price environment and widening heavy oil differentials, partially offset by increases in Twin Butte's oil and liquids weighting. Compared to the prior year quarter, the WTI crude oil benchmark decreased by 6% and the WCS crude oil benchmark decreased by 19%. Oil and liquids weighting increased to 87% from 64% as a result of the Company's drilling program, acquisitions and declining natural gas sales. As the Company has not recently targeted gas-based drilling, natural gas sales have seen, and are expected to continue to see a steady decline from the comparative periods.

Revenues for the twelve months ended December 31, 2012 were $304.7 million, as compared to $146.6 million for the twelve months ended December 31, 2011, representing an increase of $158.1 million or 108%. This increase in revenue is again attributed to annual production increases of 93% mainly from the Emerge, Avalon and Waseca acquisitions and the increase in oil and liquids weighting from 61% to 84%. Production increased from 7,615 boe/d in 2011 to 14,681 boe/d in 2012. The average realized commodity price before hedging increased from $52.74 per boe in 2011 to $56.41 in 2012 due to increases in oil and liquids weighting, partially offset by the slightly weaker Canadian heavy oil price environment and weak gas prices during 2012.

ROYALTIES

	Three months ended December 31		Twelve months ended December 31	
($000's except per boe amounts)	**2012**	2011	**2012**	2011
Heavy Oil	**12,629**	5,493	**51,607**	21,129
Light & Medium oil	**2,717**	1,626	**10,395**	5,138
Natural Gas	**(168)**	(137)	**(306)**	(527)
NGL's	**678**	1,105	**2,636**	3,089
Total Royalties	**15,856**	8,087	**64,332**	28,829
Total royalties per boe	**9.83**	11.42	**11.97**	10.37
% of P&NG Sales	**18%**	20%	**21%**	20%

Royalties for the three months ended December 31, 2012 were $15.9 million, as compared to $8.1 million for the three months ended December 31, 2011. Royalties on an absolute basis increased as a result of increased crude oil production volumes and sales. As a percentage of sales, the average royalty rate for the fourth quarter of 2012 decreased to 18% compared to 20% in the fourth quarter of 2011, with oil averaging 19% and gas averaging (-4)%. Despite the Company's oil weighting increasing 37% from the prior year, this rate has decreased due to IOGC (Indian Oil & Gas Canada) royalty credits of $2.5 million received during the quarter. Twin Butte finalized an agreement with the IOGC which reduced royalty rates for new producing wells on First Nations lands to a maximum of 10% for the first 12 months starting December 1, 2011, resulting in royalty credits of $4.5 million during the second half of 2012. Gas royalty rates are negative during the quarter due to reduced gas production combined with gas cost allowance credits, and credits received which relate to prior year production.

Royalties for the twelve months ended December 31, 2012 were $64.3 million, as compared to $28.8 million for the twelve months ended December 31, 2011. This increase on an absolute basis is due to increased crude oil production volumes and sales, partially offset by IOCG credits. The crude oil volume growth increased liquids production to 84% of total volumes, up from 61% in 2011 and raised the average royalty rate for the twelve month period ended December 31, 2012 to 21% from 20% in 2011. For the twelve months ended 2012, oil and liquids royalty rates were approximately 22% while natural gas rates were approximately (-2)% of sales. Gas royalty rates are negative during the year due to reduced gas production combined with gas cost allowance credits, specifically including those received on our Pincher Creek property which was shut in from July to October 2012, and credits received which relate to prior year production.

OPERATING & TRANSPORTATION EXPENSE

	Three months ended December 31		Twelve months ended December 31	
($000's except per boe amounts)	**2012**	2011	**2012**	2011
Operating expense	**31,829**	12,004	**99,685**	43,761
Transportation	**4,555**	1,386	**13,554**	5,113
Total operating & transportation expense	**36,384**	13,390	**113,239**	48,874
Operating expense per boe	**19.73**	16.96	**18.55**	15.75
Transportation expense per boe	**2.82**	1.96	**2.52**	1.84
Total per boe	**22.55**	18.92	**21.07**	17.59

The Company continues to work on methods to increase our netback received through controlling operating costs. Where opportunities are available, we have installed fuel gas systems that use our own gas for heating and power, installed our own water disposal facilities, and reduced trucking charges by further cleaning the oil at our well sites.

Operating expenses were $36.4 million or $19.73 per boe for the quarter ended December 31, 2012 as compared to $13.4 million or $16.96 per boe for the three months ended December 31, 2011. The increase on an absolute dollar basis is mainly attributable to increased production from acquisitions and our drilling program. On a per boe basis, increases in the quarter relate to acquisitions completed in 2012, and our increasing oil and liquids weighting. Compared to historic Twin Butte properties, the acquired properties have higher water cut, increased propane and power usage, and are located in districts with higher property taxes. Our increasing oil and liquids production ratio has also increased our costs related to well servicing, well-site supervision, and tank cleaning, as these activities are required more often at oil and liquids producing wells.

Operating expenses were $99.7 million or $18.55 per boe for the twelve months ended December 31, 2012 as compared to $43.8 million or $15.75 per boe for the twelve months ended December 31, 2011. The increase on an absolute dollar basis is mainly attributable to the production growth from acquisitions and drilling success. The higher average corporate operating cost per boe for the year has increased due to similar reasons as our quarterly increase. Our acquired properties and increased oil and liquids weighting have resulted in increased costs on a per boe basis.

Transportation expenses for the three months ended December 31, 2012 were $4.6 million or $2.82 per boe compared to $1.4 million or $1.96 per boe in the prior year comparative quarter. Transportation expenses for the twelve months ended December 31, 2012 were $13.6 million or $2.52 per boe compared to $5.1 million or $1.84 per boe in the prior period comparative period. The absolute increase for both the three and twelve month period 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 fourth quarter, we have higher operating and transportation costs of $22.55 per boe as compared to $18.92 per boe for the comparable period of 2011. This 19% increase is due to increased oil and liquids weighting, as well as acquisitions with a higher average operating cost than Twin Butte's historical average. The Company is targeting all in operating and transportation costs of $21.50 per boe for 2013.

GENERAL AND ADMINISTRATIVE ("G&A") EXPENSES

	Three months ended December 31		Twelve months ended December 31	
($000's except per boe amounts)	**2012**	2011	**2012**	2011
G&A expense	**4,715**	2,844	**16,201**	11,448
Recoveries	**(527)**	(664)	**(2,404)**	(2,562)
Capitalized G&A expense	**(851)**	(635)	**(3,190)**	(2,579)
Total net G&A expense	**3,337**	1,545	**10,607**	6,307
Total net G&A expense per boe	**2.07**	2.18	**1.97**	2.27
Emerge, Avalon & Waseca transaction expense	**1,233**	–	**4,239**	–
Transaction expense per boe	**0.76**	–	**0.79**	–

General and administrative expenses, net of recoveries and capitalized G&A, were $3.3 million or $2.07 per boe for the current quarter as compared to $1.5 million or $2.18 per boe in the prior year comparative quarter. On an absolute basis, the Company incurred higher costs during the quarter as a result of increased staff levels around recent acquisitions, performance-based compensation, and other costs associated with the Company's increased level of operations.

Annually, recoveries and capitalized G&A as a percentage of gross G&A have decreased with lower capital spending as a percentage of cash flow. Net G&A expense was $10.6 million or $1.97 per boe for the twelve month period ended December 31, 2012 as compared to $6.3 million or $2.27 per boe in the prior period comparative period. While total G&A costs have increased for the year due to acquisitions and production growth, on a per barrel basis G&A has declined from $2.27 to $1.97 per boe. This is due to production volumes increasing at a higher rate than G&A costs, due to acquisition synergies. The Company expects net G&A for 2013 to stay below $2.00 per boe.

During the year, the Company incurred one-time transaction costs related to corporate and property acquisitions, specifically advisory, stock exchange, legal and bank fees. The Emerge acquisition costs totaled $2.2 million, Avalon costs totaled $0.8 million, and Twin Butte also incurred $1.2 million for the Waseca acquisition.

SHARE-BASED PAYMENT EXPENSE

	Three months ended December 31		Twelve months ended December 31	
($000's except per boe amounts)	**2012**	2011	**2012**	2011
Total	**1,549**	459	**4,386**	1,393
Total per boe	**0.96**	0.65	**0.82**	0.54

On January 10, 2012, with the conversion to a dividend paying Company, Twin Butte implemented a share award incentive plan. 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). No further stock options will be granted and outstanding options will be either exercised or forfeited over their remaining life.

Share awards may be granted to employees, officers, directors and service providers and the Board has reserved up to 10% of outstanding Common Shares less outstanding options for issuance to eligible participants, of which 2.1% was committed at December 31, 2012. 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. Certain share awards also contain a performance factor, which allows multiplication of the award by a value determined by the Board of Directors between 0 and 2. Share awards are measured at fair value on 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 months ended December 31, 2012, the Company expensed $1.5 million in share-based payment expense as compared to $0.5 million in the three month period ended December 31, 2011. In December 2012, the Board of Directors declared a performance factor of 2 for performance share awards vesting in 2013. This resulted in additional share-based payment expense of $0.7 million during the quarter.

During the twelve months ended December 31, 2012, the Company expensed $4.4 million in share-based payment expense as compared to $1.4 million in 2011. This rise in expense is in line with our increased level of operations, and the declaration of a factor of 2 for performance-based awards vesting in 2013.

The Company granted 177,981 share awards, 538,915 performance share awards and nil stock options in the fourth quarter of 2012 as compared to 59,000 stock options in the fourth quarter of 2011. Total share awards forfeited due to employee departures were 269,030 in the quarter versus nil options forfeited in the fourth quarter last year. At the end of the fourth quarter 2012, the Company has 2,481,957 restricted share awards, 1,717,759 performance share awards and 895,434 options outstanding.

FINANCE EXPENSE

	Three months ended December 31		Twelve months ended December 31	
(000's except per boe amounts)	**2012**	2011	**2012**	2011
Accretion on decommissioning provision	**495**	277	**1,623**	1,078
Interest and bank charges	**1,906**	686	**5,679**	2,981
Total finance expense	**2,401**	963	**7,302**	4,059
Accretion on decommissioning provision per boe	**0.31**	0.39	**0.30**	0.39
Interest and bank charges per boe	**1.18**	0.97	**1.06**	1.07
Total finance expense per boe	**1.49**	1.36	**1.36**	1.46

For the three months ended December 31, 2012, finance charges were $2.4 million as compared to $1.0 million in the three month period ended December 31, 2011. This increase is due to increased average bank debt for the quarter, which was $195 million compared to $78 million in the prior year quarter. The Auburndale asset acquisition and a portion of the Company's acquisition of Waseca were funded through debt increases this quarter.

For the twelve months ended December 31, 2012, finance charges were $7.3 million, as compared to $4.1 million in the prior year. Finance expense for the year increased due to fees incurred to upgrade our bank line from a demand facility to a dedicated facility, as well as increased interest on our higher average bank debt. Our 2012 acquisitions increased our average bank debt carried from an average of $76 million in 2011 to an average of $135 million in 2012. The effective interest rate for 2012 was 4.21%, compared to 3.94% in 2011. The Company's current interest charge on bank borrowings is bank prime of 3.0% plus a margin of 1% for a total rate of 4%. This is an increase over last year's rate of 3.50%, but a decrease from 4.25% for the fourth quarter of 2012.

DERIVATIVE ACTIVITIES

	Three months ended December 31		Twelve months ended December 31	
(000's except per boe amounts)	**2012**	2011	**2012**	2011
Realized gain (loss)	**7,796**	(824)	**29,401**	1,686
Unrealized gain (loss)	**18,511**	(9,554)	**32,510**	(1,385)
Gain (loss) on derivatives	**26,307**	(10,378)	**61,911**	301
Realized gain (loss) on derivatives per boe	**4.83**	(1.16)	**5.47**	0.61
Unrealized gain (loss) on derivatives per boe	**11.48**	(13.50)	**6.05**	(0.50)
Gain (loss) on derivatives per boe	**16.31**	(14.66)	**11.52**	0.11

During 2012, Twin Butte entered into fixed price swaps for both crude oil and natural gas and sold forward calls on oil production. As part of our financial management strategy to protect cash flows available for the payment of dividends, the Company 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.

The Company enters into derivative instruments to reduce forward price risk by increasing the predictability of a portion of the Company's future revenue stream. With these derivative instruments, there is a risk that the counterparty could become illiquid or that Twin Butte may not have the actual sales volumes to offset the hedge position. To manage risk, the Company's counterparties on derivative instruments are major Canadian and international banks and we limit the maximum volumes hedged to approximately 70% of forecasted sales volumes in the next twelve months and 50% beyond one year.

The Company realized a gain on financial derivatives in the amount of $7.8 million ($4.83 per boe) for the three month period ended December 31, 2012 as compared to a realized loss of $0.8 million ($1.16 per boe) for the prior quarter comparative period. This realized gain was split between a gain of $1.3 million for natural gas and $6.5 million for crude oil sales price derivatives during the quarter.

The Company realized a gain on financial derivatives in the amount of $29.4 million ($5.47 per boe) for the twelve month period ended December 31, 2012 as compared to a $1.7 million ($0.61 per boe) realized gain for the prior year comparative period. This realized gain was split between a gain of $8.5 million for natural gas and $20.9 million for crude oil sales price derivatives in 2012.

As at December 31, 2012, the Company has a net unrealized financial derivative asset in the amount of $27.2 million. The Company has recognized an unrealized gain on financial derivatives in the amount of $18.5 million for the three month period ended December 31, 2012 as compared to $9.6 million unrealized loss for the prior year comparative period. Unrealized gains at December 31, 2012 reflect the decrease in oil WTI benchmarks and a pronounced widening of the WCS differential at the end of the 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 as at December 31, 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 ($CAD)	Fixed written call price per bbl WTI (1) ($USD)	Fixed $ WCS (2) vs. bbl WTI (1)	Fair market value *$000's*
4,500	January 1, 2013 to December 31, 2013	$96.75			5,713
2,500	January 1, 2013 to March 31, 2013	$98.24			1,381
3,000	April 1, 2013 to June 30, 2013	$99.08			1,540
1,500	July 1, 2013 to September 30, 2013	$98.70			670
1,000	January 1, 2013 to June 30, 2013	$96.32			643
4,500	January 1, 2013 to December 31, 2013			(20.57)	13,434
1,500	January 1, 2013 to March 31, 2013			(19.50)	1,794
1,000	January 1, 2013 to June 30, 2013			(19.65)	2,104
3,300	January 1, 2013 to December 31, 2013		$108.03		(2,370)
1,300	January 1, 2014 to December 31, 2014		$110.00		(1,994)
Crude oil fair value position					22,915

(1) WTI represents posting price of West Texas Intermediate oil

(2) 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	Fair Market value *$000's*
7,800	January 1, 2013 to December 31, 2013	$4.50	4,292
Natural gas fair value position			4,292

Gain/Loss on Dispositions

During the year ended December 31, 2012 the company disposed of minor properties for net cash proceeds of $6.9 million which resulted in a reported gain of $3.0 million. This compares to 2011's dispositions of $11.6 million and gains of $2.6 million.

DEPLETION, DEPRECIATION & IMPAIRMENT

For the three month period ended December 31, 2012, depletion and depreciation of capital assets was $32.3 million or $20.0 per boe compared to $15.0 million or $21.20 per boe for the three month period ended December 31, 2011. On an absolute basis, this increase relates to increased production for the quarter. The rate per boe has decreased due to fourth quarter increases in proved and probable reserves, which increased relatively more than production increases and property, plant & equipment additions.

For the twelve month period ended December 31, 2012, depletion and depreciation of capital assets was $99.5 million or $18.51 per boe compared to $38.7 million or $15.42 per boe for the twelve month period ended December 31, 2011. Acquisitions during the year have increased the Company's depletion rate as the cost per boe has been above our historical cost base.

At December 31, 2012, the Company assessed for indicators of impairment for all of its cash generating units (CGUs). Reductions to future natural gas benchmark pricing indicated that CGUs that produce a high level of natural gas may be impaired. Twin Butte estimated the recoverable amount for these CGUs based on the fair value less costs to sell, determined with an after-tax discount rate of 9.5%, forecasted cash flows over the estimated life of reserves, and an independent industry reserve engineer price deck. Based on the assessment, the carrying value of the Deep Basin, Plains, and West Central CGUs were determined to be lower than their respective recoverable amounts and a total non-cash impairment charge of $17.2 million was recognized. At December 31, 2011, due to sustained low natural gas current and forward prices, the Company impaired the Pincher Creek, Plains and Deep Basin CGUs for a total of $40.3 million.

The E&E assets associated with these CGUs were not included in this impairment test, as no impairment indicators were noted for E&E assets.

INCOME TAXES

Deferred tax expense amounted to $2.1 million for the three month period ended December 31, 2012 compared to $9.4 million recovery for the three month period ended December 31, 2011. This decrease in the recovery is a result of gains on unrealized derivative contracts during the quarter.

Deferred income tax expense amounted to $13.6 million for the twelve month period ended December 31, 2012, compared to a deferred income tax recovery in the amount of $3.0 million for the twelve month period ended December 31, 2011. No cash income taxes were paid in 2012 and 2011.

The Company has existing tax losses and pools of approximately $564 million at December 31, 2012. These income tax pools are deductible at various rates and annual deductions associated with the initial pools will decline over time.

NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

	Three months ended December 31		Twelve months ended December 31	
($000's except per share amounts)	**2012**	2011	**2012**	2011
Net Income (loss)	**(5,381)**	(37,047)	**31,530**	(19,021)
Net Income (loss) per share	**(0.02)**	(0.27)	**0.15**	(0.14)

Net and comprehensive income for the three month period ended December 31, 2012 was a net loss of $5.4 million, compared to a net loss of $37.0 million in the prior year comparative period. Revenue increases and a significant unrealized mark-to-market hedging gain increased net income, but were offset by impairment charges due to lower natural gas forecast prices. In 2011, the loss was also attributed to impairment losses as a result of sustained lower natural gas forecast prices.

For the twelve month period ended December 31, 2012, net and comprehensive income was $31.5 million, compared to a net loss of $19.0 million in 2011. This increase is due to increasing production levels driving increased revenue, realized and unrealized derivative gains, and was partially offset by impairment charges.

SELECTED ANNUAL INFORMATION

	Twelve months ended December 31		
($000's except per share amounts)	**2012**	2011	2010
Petroleum and natual gas sales	**304,729**	146,577	101,876
Net Income (loss)	**31,530**	(19,021)	682
Per share basic	**0.15**	(0.14)	0.01
Per share diluted	**0.15**	(0.14)	0.01
Total assets	**845,261**	340,664	345,710
Total non-current financial liabilities	**193,625**	3,102	3,340
Dividends declared	**37,249**	–	–

QUARTERLY FINANCIAL SUMMARY

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

($000's, except per share amounts)	**Q4 2012**	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Average production (boe/d)	**17,531**	13,752	14,193	13,228	7,695	7,599	7,556	7,608
Petroleum and natural gas sales	**88,673**	73,386	70,173	72,497	41,216	34,885	38,748	31,728
Operating netback (per boe) (1)	**26.27**	33.80	28.95	26.71	26.72	23.1	29.52	22.21
Funds flow from operations (2)	**37,754**	38,119	33,762	26,400	16,686	14,042	17,686	12,789
Per share basic	**0.16**	0.19	0.18	0.14	0.12	0.10	0.13	0.10
Per share diluted	**0.16**	0.19	0.17	0.14	0.12	0.10	0.13	0.10
Net income (loss)	**(5,381)**	(7,411)	29,529	14,983	(37,047)	7,522	12,765	(2,262)
Per share basic	**(0.02)**	(0.04)	0.15	0.08	(0.27)	0.05	0.10	(0.02)
Per share diluted	**(0.02)**	(0.04)	0.15	0.08	(0.27)	0.06	0.09	(0.02)
Corporate acquisitions (3)	**134,972**	88,369	–	203,000	–	–	2,388	6
Capital expenditures (4)	**37,307**	17,183	23,576	8,058	9,842	22,071	17,257	5,847
Total assets	**845,261**	690,240	588,893	583,439	340,664	370,472	348,790	338,478
Net debt excluding financial derivatives	**201,703**	146,843	124,459	126,466	77,169	83,857	75,960	80,677

(1) Operating netback is a non-GAAP 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 and funds flow from operations netback are non-GAAP 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.

(3) Corporate acquisitions are a non-GAAP measure and include total consideration plus working capital deficiency acquired in a corporate acquisition.

(4) Capital expenditures are a non-GAAP measure, calculated as the purchase or sale price of an asset, plus development capital expenditures added to PP&E. Corporate acquisitions are excluded from this measure.

FUNDS FLOW FROM OPERATIONS (1), TOTAL PAYOUT RATIO (3), AND NETBACKS

Funds flow from operations and the payout ratio are non-GAAP measures. Funds flow from operations represents cash flow from operating activities adjusted for expenditures on decommissioning activities and changes in non-cash operating working capital. The payout ratio is calculated as dividends paid and capital expenditures (excluding corporate acquisitions) as a percentage of funds flow from operations. Twin Butte considers these to be key measures of performance as they demonstrate our ability to generate the cash flow necessary to fund dividends and capital investment and ultimately, satisfy our corporate strategy.

	Three months ended December 31		Twelve months ended December 31	
(000's except per share amounts)	**2012**	2011	**2012**	2011
Cash flow from operating activities	**47,197**	20,590	**131,767**	63,121
Expenditures on decommissioning liability	**483**	517	**1,140**	1,067
Change in non-cash working capital	**(9,926)**	(4,421)	**3,127**	(2,916)
Funds flow (1)	**37,754**	16,686	**136,034**	61,272
Funds flow per share	**0.16**	0.12	**0.66**	0.45
Dividends declared	**(10,579)**		**(37,249)**	
Capital Expenditures (2)	**(37,307)**		**(86,023)**	
Payout ratio (3)	**127%**		**91%**	
Reinvested dividends (DRIP)	**1,759**		**2,299**	
Total payout ratio (net of DRIP) (3)	**122%**		**89%**	

(1) Funds flow from operations and funds flow from operations netback are non-GAAP 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.

(2) Capital expenditures is a non-GAAP measure, calculated as the purchase or sale price of an asset, plus development capital expenditures. Corporate acquisitions are excluded from this measure.

(3) Payout ratio is a non-GAAP measure, calculated as the sum of dividends and capital expenditures, divided by funds flow from operations. Total Payout Ratio (net of DRIP) is the Payout ratio, adjusted for reinvested dividends. These ratios are not applicable to 2011, which is prior to Twin Butte's conversion to a dividend paying company. The DRIP program was initiated with the August dividend payment on September 17, 2012.

Twin Butte's corporate strategy aims to provide shareholders with long term total returns comprised of both income and moderate growth, with a focus on dividend sustainability. The company targets 2–4% production growth and a total payout (net of DRIP) that will not exceed cash flow on an annual basis. The Company uses the total payout ratio to monitor performance, and will adjust capital expenditures to ensure that the total payout does not exceed cash flow, where required. For the three month period ended December 31, 2012, asset acquisitions increased our total payout ratio to 122%. In 2012, the total payout ratio was 89%.

Funds flow from operations for the three month period ended December 31, 2012 was $37.8 million, consistent with third quarter 2012 funds flow of $38.1 million. This represents $0.16 per diluted share compared to $0.12 per diluted share for the same quarter last year and $0.19 in the third quarter 2012. The increase in funds flow from the prior year quarter is due to the Company's 2012 acquisitions and the increase in production to 17,531 boe/d from 7,695 boe/d.

Funds flow from operations for the twelve month period ended December 31, 2012 was $136.0 million, an increase of 122% from the twelve month period ended December 31, 2011 funds flow of $61.3 million. This represents a 47% increase in diluted funds flow per share, which increased to $0.66 per share for the twelve month period ended December 31, 2012 compared to $0.45 per share for the prior year. The significant increase in funds flow is due primarily to the 93% increase in production along with increased commodity weighting to oil and liquids.

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

($ per boe)	**Q4 2012**	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Petroleum and natural gas sales	**54.98**	58.01	54.33	60.23	58.22	49.90	56.36	46.34
Royalties	**(9.83)**	(11.40)	(12.84)	(14.52)	(11.42)	(11.30)	(9.98)	(8.73)
Realized gain (loss) on financial derivatives	**4.83**	8.02	6.91	2.10	(1.16)	2.65	(0.24)	1.20
Operating expense	**(19.73)**	(18.38)	(17.19)	(18.62)	(16.96)	(16.25)	(14.99)	(14.73)
Transportation expense	**(2.82)**	(2.45)	(2.26)	(2.48)	(1.96)	(1.90)	(1.63)	(1.87)
Operating netback [(1)]	**27.43**	33.80	28.95	26.71	26.72	23.10	29.52	22.21
General and administrative expense	**(2.07)**	(2.22)	(1.57)	(2.03)	(2.18)	(2.04)	(2.53)	(2.33)
Transaction costs	**(0.76)**	(0.62)	(0.20)	(1.63)	–	–	–	–
Interest and bank charges	**(1.18)**	(1.00)	(1.05)	(1.13)	(0.97)	(0.98)	(1.26)	(1.09)
Funds flow from operations [(2)]	**23.42**	29.96	26.13	21.92	23.57	20.08	25.73	18.79

(1) Operating netback is a non-GAAP 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-GAAP 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.

CAPITAL EXPENDITURES AND PP&E ADDITIONS

	Three months ended December 31		Twelve months ended December 31	
($000's)	**2012**	2011	**2012**	2011
Land acquisition	**35**	(403)	**59**	339
Geological and geophysical	**436**	109	**879**	1,183
Drilling and completions	**10,080**	6,899	**37,291**	44,769
Equipping and facilities	**4,653**	2,433	**14,485**	16,917
Other	**1,649**	981	**5,678**	3,630
Development capital	**16,853**	10,019	**58,392**	66,838
Property acquisitions – Cash paid	**20,454**	–	**34,500**	2,394
Property dispositions – Cash received	**–**	(214)	**(6,869)**	(11,865)
Capital expenditures (1)	**37,307**	9,805	**86,023**	57,367
Net other additions to PP&E (2)	**3,558**	–	**13,203**	–
Corporate acquisition additions to PP&E	**114,631**	–	**406,000**	–
Total net additions to PP&E	**155,496**	9,805	**505,226**	57,367

(1) Capital expenditures is a non-GAAP measure and is defined as the total cash consideration paid or received for property acquisitions and dispositions, plus development capital expenditures. This measure is used by management to calculate the Payout and Total Payout Ratios.

(2) Net other additions to PP&E reconciles the Non-GAAP Capital Expenditures measure to the IFRS measure of capital additions, and is the net adjustments made to account for the assets purchased under IFRS 3 – Business Combinations, assets sold for cash and corresponding changes in PP&E due to changes in the decommissioning liability.

During the fourth quarter of 2012, the Company invested $16.9 million on development capital. The Company's development capital expenditures for the fourth quarter were focused on heavy oil areas, with successful drilling of 4 (4.0 net) oil wells at each of Swimming, Celtic, and Primate; 3 (3.0 net) wells at Mervin; and 5 (5.0 net) wells at various other properties. Of the 23 wells drilled this quarter, 3 were Dry and Abandoned (D&A). The Company also completed property acquisitions and dispositions taking total net cash outlay of $37.3 million.

During the twelve months ended December 31, 2012, the Company has invested $58.4 million on development capital, drilling a total of 95 (77.2 net) wells in 2012, of which 100% (net) were oil wells, and 4 were D&A. In addition, the Company completed property acquisitions and dispositions for a net outlay of $27.6 million for total net capital expenditures of $86.0 million.

Corporate acquisitions in 2012 include Emerge, purchased for common shares with a market value of $134.3 million and a working capital liability of $60.0 million; Avalon, purchased for common shares with a market value of $65.3 million and a working capital liability of $33.8 million; and Waseca, purchased for $56.7 million in cash, common shares with a market value of $88.2 million, and a working capital asset assumption of $10.8 million. As these purchases were accounted for under IFRS 3 – Business combinations, the addition of $406.0 million to PP&E is after allocation to E&E, future income taxes, decommissioning liabilities, and goodwill.

Drilling Results

Three months ended December 31	2012		2011	
	Gross	**Net**	Gross	Net
Crude oil	**20**	**20**	12	7.5
Natural gas	**–**	**–**	–	–
Dry and abandoned	**3**	**3**	–	–
Total	**23**	**23**	12	7.5
Success rate (%)	**87%**	**87%**	100%	100%

Twelve months ended December 31	2012		2011	
	Gross	**Net**	Gross	Net
Crude oil	**91**	**73.2**	120	76.5
Natural gas	**–**	**–**	2	1.4
Dry and abandoned	**4**	**4**	3	3.0
Total	**95**	**77.2**	125	80.9
Success rate (%)	**96%**	**95%**	98%	96%

Undeveloped Land

The Company's undeveloped land holdings have been significantly increased, mainly through acquisitions this year, which exceeded conversions from drilling, dispositions and expiries in the past 12 months. Through 2012 acquisitions, the Company has been able to significantly increase our undeveloped land holdings in the core Lloydminster area to approximately 222,500 net acres.

As at December 31	2012	2011
Gross Acres	**1,007,256**	294,991
Net Acres	**455,990**	213,273

LIQUIDITY AND CAPITAL RESOURCES

The Company evaluates its ability to carry on business as a going concern on a quarterly basis, with the key indicator being whether the non-GAAP measure, funds flow from operations, will be sufficient to cover all obligations. Funds flow is calculated as cash provided by operating activities, before adjusting for changes in non-cash working capital items and expenditures on decommissioning liabilities. The Company also reviews capital expenditures on an on-going basis to ensure that funds flow will provide adequate funding. In cases where funds flow is not adequate, the Company may adjust capital expenditures to manage debt levels. Diligent monitoring of funds flow from operations, as well as debt levels, allows Twin Butte to maintain a significant undrawn portion of $95.7 million on the Company's dedicated credit facility of $280 million.

As at December 31, 2012, the Company's dedicated facility consisted of a revolving line of credit of $255 million and an operating line of credit of $25 million, available on a revolving basis until April 30, 2013. This facility is extendible annually at the request of the Company for a further 364 days, subject to approval of the lenders and repayable one year after the expiry of the revolving period. The credit facility is with a syndicate of four Canadian chartered and international banks and provides that advances may be made by way of Canadian prime rate and U.S. base rate loans, bankers' acceptances, LIBOR Loans, or standby letters of credit/guarantees.

Interest rates on Canadian prime rate loans fluctuate based on revised pricing grid and range from Bank of Canada ("bank") prime plus 1% to bank prime plus 2.5%, depending upon the Company's debt to earnings before interest, taxes, depreciation and amortization (EBITDA) ratio for the preceding twelve months in categories ranging from one to greater than three times. A debt to EBITDA ratio of less than one has interest payable at the bank's prime lending rate plus 1%. A debt to EBITDA ratio greater than three has interest payable at the bank's prime lending rate plus 2.5%. The borrowing base of the facility 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 and is secured by a debenture and a general security agreement covering all assets of the Company.

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. Twin Butte has met all of its covenants pertaining to this loan agreement and was not required to make any repayments.

At December 31, 2012, the Company had $184.3 million drawn on its credit facility and total net debt of $201.7 million. The Company has $95.7 million undrawn on its credit facility. The Company confirms there are no off-balance sheet financing arrangements.

SHARE CAPITAL

In the fourth quarter of 2012, the Company completed the acquisition of Waseca through a combination of cash and issuance of 30,222,481 shares. Shares were also issued for the exercise of 299,374 vested share awards and 4,000 options, with proceeds of $10,300. In the third quarter of 2012 with the completion of the Avalon acquisition 24,554,027 shares were issued from Treasury. In addition, 101,658 vested share awards were exercised and 35,833 options were exercised for proceeds of $42,000. In the second quarter, 791,283 vested share awards and 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 shares were issued from Treasury. In addition, 2,081,500 vested share awards were exercised and 43,333 options were exercised for proceeds of $99,000.

As of March 21, 2013 the Company has 247,797,912 Common Shares, 885,434 stock options and 4,870,504 share awards, including reinvested dividends, outstanding.

CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

The Company enters into short term contractual obligations in the normal course of business, including purchase of assets and services, operating agreements, transportation commitments, sales commitments, royalty obligations, lease rental obligations and employee agreements. These obligations are of a recurring, consistent nature and impact cash flows in an ongoing manner.

Twin butte also has long-term contractual obligations and commitments. The Company is responsible for the retirement of long-lived assets related to its oil and gas properties at the end of their useful lives. Twin Butte has recognized a liability of $89.0 million (Dec 31, 2011 – $38.4 million) based on current legislation and estimated costs. Actual costs may differ from those estimated due to changes in legislation or actual costs.

Additional contractual obligations and commitments are as follows:

As at December 31, 2012	Less than one year	One to three years	Three to five years	Thereafter	Total
Derivative liability	2,821	1,994	–	–	4,815
Bank indebtedness – principal (1)	–	184,261	–	–	184,261
Bank indebtedness – interest	7,370	7,370	–	–	14,741
Other (2)	1,067	2,355	2,371	498	6,291
	11,258	195,980	2,371	498	210,108

(1) Repayment of this principal amount in one to three years is based on the revolving debt agreement currently in place and does not consider the annual review for extension. The next review is scheduled for April 2013, at which Management fully expects the facility to be extended.

(2) Other includes contractual obligations and commitments for office rent and equipment.

The Company has income tax filings that are subject to audit and potential reassessment. The findings may impact the tax liability of the Company. The final results are not reasonably determinable at this time and management believes that it has adequately provided for current and deferred income taxes.

Twin Butte is also involved in various claims and litigation arising in the normal course of business. While the outcome of these matters is uncertain and there can be no assurance that such matters will be resolved in the Company's favor, the Company does not currently believe that the outcome of adverse decisions in any pending or threatened proceedings related to these and other matters would have a material adverse impact on its financial position, results of operations or liquidity.

RELATED PARTY TRANSACTIONS

During the three month period ended December 31, 2012, the Company incurred costs totaling $2.0 million (2011 – $5.2 million) for oilfield services and legal counsel rendered by three companies in which an officer or director of Twin Butte is also a director. During the twelve month period ended December 31, 2012, the Company incurred costs totaling $6.9 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 December 31, 2012, the Company had $4.3 million ($0.1 million – December 31, 2011) included in accounts payable and accrued liabilities related to these transactions.

SUBSEQUENT EVENTS

Crude Oil Sales Price Derivative Contracts

Subsequent to December 31, 2012 the Company entered into crude oil price derivatives, for the remainder of 2013 and extending into 2014. The averages barrels and prices for these derivatives are as follows:

Daily barrel (boe) quantity	Term of contract	Fixed price per boe ($ WTI)	Fixed $ WCS vs. boe (WTI)
2,583	Various – January to December 2013	$95.16	
2,291	Various – January to December 2013		($22.11)
4,250	Various – January to December 2014	$95.74	
2,250	Various – January to December 2014		($20.84)

Crude Oil Swaption Derivative Contracts

Subsequent to December 31, 2012 the Company sold Crude Oil Swaptions. The holders of the swaptions have the right to exercise the option portion on the option expiry date, and enter into WTI fixed call swaps with the Company. The following swaptions have been sold:

Daily barrel (boe) quantity	Option contract expiry	Term of underlying WTI fixed call	Fixed call price per boe ($CAD or US WTI)	Sale Proceeds *($000's)*
2000	March 28, 2013	April 1, 2013 to December 31, 2013	$US 95.00	$1,870
1000	June 28, 2013	July 1, 2013 to December 31, 2013	$US 95.00	$828
3000	June 30, 2013	January 1, 2014 to December 31, 2014	$US 100.00	$1,935
2000	September 30, 2013	January 1, 2014 to December 31, 2014	$US 100.00	$1,942
1000	December 31, 2013	January 1, 2014 to December 31, 2014	$US 100.00	$1,369
2000	December 31, 2013	January 1, 2014 to June 30, 2014	$C 100.00	$–

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates, and differences could be material. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Estimates and assumptions

Information about significant areas of estimation uncertainty in applying accounting policies that have the most significant effect on the amounts recognized in the annual financial statements is included in the following notes:

- Note 5 – valuation of financial instruments;
- Note 8 – valuation of property and equipment;
- Note 10 – measurement of decommissioning provision;
- Note 11 – measurement of share-based compensation; and
- Note 16 – income tax expense.

Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimates, which may have the most significant effect on the amounts recognized in the financial statements.

(a) Exploration and evaluation assets

The decision to transfer assets from exploration and evaluation to property and equipment is based on the estimated proved and probable reserves used in the determination of an area's technical feasibility and commercial viability.

(b) Reserves base

The oil and gas development and production properties are depreciated on a unit of production ("UOP") basis at a rate calculated by reference to proved and probable reserves determined in accordance with National Instrument 51-101 "Standards of Disclosure for Oil and Gas Activities" and incorporate the estimated future cost of developing and extracting those reserves. Proved plus probable reserves are determined using estimates of oil and natural gas in place, recovery factors and future prices. Future development costs are estimated using assumptions as to number of wells required to produce the reserves, the cost of such wells and associated production facilities and other capital costs (Note 8).

Proved and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is highly likely that the actual remaining quantities recovered will exceed the estimated proved reserves. Probable reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved and probable reserves.

(c) Depletion of oil and gas assets

Oil and gas properties are depleted using the UOP method over proved plus probable reserves. The calculation of the UOP rate of depletion could be impacted to the extent that actual production in the future is different from current forecast production based on proved plus probable reserves. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves (Note 8).

(d) Determination of cash generating units

Oil and gas properties are grouped into cash generating units for purposes of impairment testing. Management has evaluated the oil and gas properties of the Company, and grouped the properties into cash generating units on the basis of their ability to generate independent cash inflows, similar reserve characteristics, geographical location, and shared infrastructure.

(e) Impairment indicators and calculation of impairment

At each reporting date, Twin Butte assesses whether or not there are circumstances that indicate a possibility that the carrying values of exploration and evaluation assets and property and equipment are not recoverable, or impaired. Such circumstances include incidents of deterioration of commodity prices, changes in the regulatory environment, or a reduction in estimates of proved and probable reserves. At December 31, 2012, Management exercised judgement at determined that there were impairment indicators present for certain CGUs. When management judges that circumstances clearly indicate impairment, property and equipment and exploration and evaluation assets are tested for impairment by comparing the carrying values to their recoverable amounts. The recoverable amounts of cash generating units are determined based on the higher of value in use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions that are subject to changes as new information becomes available including information on future commodity prices, expected production volumes, quantity of reserves, discount rates, as well as future development and operating costs.

New standards and interpretations not yet adopted

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

i) *IFRS 9 Financial Instruments: Classification and Measurement* uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. For financial liabilities, although the classification criteria for financial liabilities will not change under IFRS 9, the approach to the fair value option for financial liabilities may require different accounting for changes to the fair value of a financial liability as a result of changes to an entity's own credit risk. IFRS 9 is effective for annual periods beginning on or after January 1, 2015 with different transitional arrangements depending on the date of initial application. The Company is currently evaluating the impact of adopting IFRS 9 on its financial statements.

ii) *IFRS 10 Consolidated Financial Statements* replaces *IAS 27 Consolidated and Separate Financial Statements* and *SIC 12 Consolidation – Special Purpose Entities*. IFRS 10 revises the definition of control and focuses on the need to have power and variable returns for control to be present. IFRS 10 provides guidance on participating and protective rights and also addresses the notion of "de facto" control. It also includes guidance related to an investor with decision making rights to determine if it is acting as a principal or agent. The standard is effective for the periods beginning on or after January 1, 2013. The adoption of this standard is not expected to have any impact on Twin Butte's financial statements.

iii) *IFRS 11 Joint Arrangements* requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures*, and SIC-13 *Jointly Controlled Entities—Non-monetary Contributions* by Venturers. The standard is effective for the periods beginning on or after January 1, 2013. The adoption of this standard is not expected to have any impact on Twin Butte's financial statements.

iv) *IFRS 12 Disclosure of Interest in Other Entities* replaces the disclosure requirements previously included in IAS 27, IAS 31, and IAS 28 *Investments in Associates*. It sets out the extensive disclosure requirements relating to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. An entity is required to disclose information that helps users of its financial statements evaluate the nature of and risks associated with its interests in other entities and the effects of those interests on its financial statements. The standard is effective for the periods beginning on or after January 1, 2013. The adoption of this standard is not expected to have a material impact on Twin Butte's financial statements.

v) *IFRS 13 Fair Value Measurement* is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. The standard is effective for the periods beginning on or after January 1, 2013. The adoption of this standard is expected to enhance disclosure but is not expected to have a material impact on Twin Butte's financial statements.

ASSESSMENT OF BUSINESS RISKS

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

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

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

Twin Butte seeks to mitigate these risks by:

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

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

Twin Butte's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation, that the disclosure controls and procedures as of December 31, 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 December 31, 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 reporting 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 December 31, 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.

MANAGEMENT'S REPORT

To the Shareholders of Twin Butte Energy Ltd.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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

Jim Saunders
President and Chief Executive Officer

R. Alan Steele
Vice-President, Finance & CFO

March 21, 2013

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Twin Butte Energy Ltd.:

We have audited the accompanying financial statements of Twin Butte Energy Ltd., which comprise the balance sheet as at December 31, 2012 and 2011 and the statements of income (loss) and comprehensive income (loss), changes in shareholders' equity, and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Twin Butte Energy Ltd. as at December 31, 2012 and 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta

March 21, 2013

BALANCE SHEET

(Cdn$ thousands)	*Note*	**December 31, 2012**	December 31, 2011
ASSETS			
Current Assets			
Accounts receivable	*18*	**$ 42,497**	$ 31,731
Deposits and prepaid expenses		**4,233**	2,447
Derivative assets	*5*	**32,022**	5,449
		78,752	39,627
Non-current assets			
Deferred taxes		**–**	7,514
Exploration and evaluation	*7*	**65,779**	17,044
Property and equipment	*6,8*	**669,328**	276,479
Goodwill	*9*	**31,402**	–
		$ 845,261	$ 340,664
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities	*19*	**$ 60,822**	$ 31,158
Dividend payable		**3,350**	–
Derivative liabilities	*5*	**2,821**	6,419
		66,993	37,577
Non-current liabilities			
Derivative liabilities	*5*	**1,994**	3,102
Bank indebtedness	*10*	**184,261**	80,188
Deferred taxes		**31,521**	–
Decommissioning provision	*11*	**88,991**	38,401
		373,760	159,268
Shareholders' Equity			
Share capital	*12*	**523,226**	227,520
Contributed surplus		**7,624**	7,506
Deficit		**(59,349)**	(53,630)
		471,501	181,396
		$ 845,261	$ 340,664
Commitments and contingencies (note 21)			

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

On Behalf of the Board of Directors:

Jim Saunders
Director

David Fitzpatrick
Director

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

		Twelve Months Ended December 31	
(Cdn$ thousands except per share amounts)	*Note*	**2012**	2011
Petroleum and natural gas sales	*13*	**$ 304,729**	$ 146,577
Royalties		**(64,332)**	(28,829)
Revenues		**$ 240,397**	$ 117,748
Expenses			
Operating		**99,685**	43,761
Transportation		**13,554**	5,113
General and administrative	*14*	**10,607**	6,307
Transaction costs	*6*	**4,239**	–
Share-based payments	*12*	**4,386**	1,393
Finance expense	*15*	**7,302**	4,059
Gain on derivatives	*5*	**(61,911)**	(301)
Exploration and evaluation expense	*7*	**5,038**	3,644
Gain on disposition of property and equipment	*8*	**(2,997)**	(2,590)
Gain on disposition of exploration asset	*7*	**–**	(1,340)
Negative goodwill	*6*	**(1,330)**	–
Depletion and depreciation	*8*	**99,471**	38,684
Impairment of exploration and evaluation asset	*8*	**–**	794
Impairment of property and equipment	*8*	**17,237**	40,265
		195,281	139,789
Income (loss) before income taxes		**45,116**	(22,041)
Deferred tax expense (recovery)	*17*	**13,586**	(3,020)
Net income (loss) and comprehensive income (loss)		**$ 31,530**	$ (19,021)
Net income (loss) per share $			
Basic	*12*	**0.15**	(0.14)
Diluted	*12*	**0.15**	(0.14)

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

STATEMENT OF CASH FLOWS

(Cdn$ thousands)	Note	Twelve Months Ended December 31 2012	2011
Cash provided by (used in):			
OPERATING ACTIVITIES			
Net income (loss)		**$ 31,530**	$ (19,021)
Adjustments for items not involving cash:			
Depletion and depreciation	*8*	**99,471**	38,684
Impairments		**17,237**	41,059
Deferred tax expense (recovery)		**13,586**	(3,020)
Unrealized (gain) loss on derivatives	*5*	**(32,510)**	1,385
Finance expenses	*15*	**7,302**	4,059
Interest paid	*15*	**(5,679)**	(2,981)
Share-based payments	*12*	**4,386**	1,393
Exploration and evaluation expenses	*7*	**5,038**	3,644
Gain on disposition of exploration asset		**–**	(1,340)
Negative goodwill	*6*	**(1,330)**	–
Gain on disposition of property and equipment	*8*	**(2,997)**	(2,590)
Expenditures on decommissioning provision	*11*	**(1,140)**	(1,067)
Changes in non-cash working capital	*16*	**(3,127)**	2,916
		131,767	63,121
FINANCING ACTIVITIES			
Increase (decrease) in bank indebtedness	*10*	**29,180**	(17,517)
Issuance of share capital	*12*	**–**	14,607
Issuance of share capital on exercise of stock options	*12*	**178**	400
Dividends paid		**(32,223)**	–
		(2,865)	(2,510)
INVESTING ACTIVITIES			
Expenditures on property and equipment		**(144,255)**	(68,238)
Expenditures on exploration and evaluation assets		**(4,142)**	(1,869)
Proceeds on disposition of property and equipment		**6,386**	11,865
Proceeds on disposition of exploration and evaluation assets	*7*	**483**	1,888
Changes in non-cash working capital		**12,626**	(4,257)
		(128,902)	(60,611)
Change in cash		**$ –**	$ –
Cash and cash equivalents, beginning and end of period		**$ –**	$ –

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

		Twelve Months Ended December 31	
(Cdn$ thousands)	*Note*	**2012**	2011
Share capital			
Balance, beginning of year		**$ 227,520**	$ 211,538
Common shares issued for Emerge acquisition	*6*	**134,264**	–
Common shares issued for Avalon acquisition	*6*	**65,314**	–
Common shares issued for Waseca acquisition	*6*	**88,159**	–
Issued pursuant to the DRIP		**1,676**	–
Common shares issued under employee and option plan	*12*	**6,293**	568
Warrants exercised		**–**	15,414
Balance, end of year		**$ 523,226**	$ 227,520
Warrants			
Balance, beginning of year		**$ –**	$ 912
Warrants expired		**–**	$ (105)
Warrants exercised		**–**	(807)
Balance, end of year		**$ –**	$ –
Contributed surplus			
Balance, beginning of year		**$ 7,506**	$ 5,124
Share-based payments for awards exercised		**(6,757)**	(168)
Warrants expired		**–**	105
Share-based payments for awards granted		**6,875**	2,445
Balance, end of year		**$ 7,624**	$ 7,506
Deficit			
Balance, beginning of year		**$ (53,630)**	$ (34,609)
Dividends		**$ (37,249)**	$ –
Net income (loss) and comprehensive income (loss)		**31,530**	(19,021)
Balance, end of year		**$ (59,349)**	$ (53,630)

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

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

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 dividend paying 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 PRESENTATION

The Company prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These financial statements have been prepared on the historical cost basis, except as disclosed in the significant accounting policies in Note 3. They are presented in Canadian dollars, which is the Company's functional currency.

These financial statements were approved and authorized for issue by the Board of Directors on March 21, 2013.

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these financial statements, and have been applied consistently by the Company. The significant accounting policies used in the preparation of these financial statements are as follows:

(a) Cash and cash equivalents

Cash consists of balances held with banks, and other short-term highly liquid investments with original maturities of three months or less from inception.

(b) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date. Gains and or losses on these items are included in the statement of income (loss).

(c) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have been expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

All financial instruments are initially recognized at fair value on the balance sheet. Measurement of financial instruments subsequent to the initial recognition, as well as resulting gains and losses, are based on how each financial instrument was initially classified. The Company has classified each identified financial instrument into the following categories: fair value through profit or loss, loans and receivables, held-to-maturity investments, available for sale financial assets, and financial liabilities at amortized cost. Fair value through profit or loss financial instruments are measured at fair value with gains and losses recognized in income immediately. Available for sale financial assets are measured at fair value with gains and losses, other than impairment losses, recognized in other comprehensive income and transferred to income when the asset is derecognized. Loans and receivables, held-to-maturity investments and financial liabilities at amortized cost are recognized at amortized cost using the effective interest method and impairment losses are recorded in income when incurred.

Derivative instruments executed by the Company to manage market risk associated with volatile commodity prices are classified as held for trading within fair value through profit or loss and recorded on the balance sheet at fair value as derivative assets and liabilities. Gains and losses on these derivative instruments are recorded as gains and losses on derivatives in the statement of income (loss) in the period they occur.

Gains and losses on derivative instruments are comprised of cash receipts and payments associated with periodic settlement that occurs over the life of the instrument (realized gains/losses), and non-cash gains and losses associated with changes in the fair values of the instruments which are remeasured at each reporting date and recorded on the balance sheet (unrealized gains/losses). Transaction costs attributed to the acquisition or issue of a derivative instrument are expensed immediately. For other financial instruments, transaction costs are added to the fair value initially recognized for a financial asset or liability.

(d) Share capital

Equity instruments issued by the Company are recorded at the proceeds received, with direct issue costs as a deduction there from, net of any associated tax benefit.

(e) Jointly controlled assets

A portion of the Company's oil and natural gas activities involve jointly controlled assets. The financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

(f) Property and equipment and exploration and evaluation assets

(i) Exploration and evaluation (E&E) expenditures

Pre-license costs are recognized in the statement of income (loss) as incurred. All exploratory costs incurred subsequent to acquiring the right to explore for oil and natural gas and before technical feasibility and commercial viability of the area have been established are capitalized as E&E assets. Such costs can typically include costs to acquire land rights in areas with no proved or probable reserves assigned, geological and geophysical costs, and exploration wells.

Exploration and evaluation costs initially are capitalized as either tangible or intangible according to the nature of the assets acquired. The costs are accumulated in areas by well, field or exploration area pending determination of technical feasibility and commercial viability.

Exploration and evaluation assets are not depreciated, and are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. If an impairment indicator for E&E assets is noted, for purposes of impairment testing, exploration and evaluation assets are allocated cash-generating units.

The technical feasibility and commercial viability of extracting a mineral resource from exploration and evaluation assets is considered when proved and probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proved and probable reserves have been discovered. Upon determination of proved and probable reserves, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to development and production assets within property and equipment. If the well or exploration project did not encounter potentially economic oil and gas quantities, the unrecoverable costs are expensed and reported in exploration and evaluation expense in the period incurred.

(ii) Development and production expenditures

Items of property and equipment, which include petroleum and natural gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Costs include E&E expenditures incurred in finding commercial reserves transferred from E&E assets, drilling and completion, production facilities, decommissioning costs, geological and geophysical costs and directly attributable costs related to development and production activities, net of any government incentive programs, and for qualifying assets, borrowing costs The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

When significant parts of an item of property and equipment, including oil and natural gas properties, have different useful lives, they are accounted for as separate items (major components). Gains and losses on disposal of an item of property and equipment, including oil and natural gas properties and E&E assets, are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized within the statement of income (loss).

(iii) Subsequent costs

Costs incurred subsequent to commencement of production that are significant are recognized as oil and gas assets only when they increase the future economic benefits embodied in the specific asset to which they relate. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in income as incurred.

(iv) Depletion and depreciation

The net carrying value of oil and gas properties is depleted using the unit of production method by reference to the ratio of production in the period to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually. Major development projects are not depleted until production commences.

The Company records furniture and equipment at cost and provides depreciation on the declining balance method at a rate of 20% per annum which is designed to amortize the cost of the assets over their estimated useful lives. The Company records leasehold improvements at cost and provides depreciation on the straight-line method over the term of the lease. Leased assets are depreciated over the shorter of the lease term and their useful lives. Depreciation methods, useful lives and residual values are reviewed at each financial year end, and, if necessary, changes in useful lives are accounted for prospectively.

(g) Asset swaps

Exchanges of development and production assets are measured at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. Where fair value is not used, the cost of the acquired asset is measured at the carrying amount of the amount given up. Any gain or loss on derecognition of the asset given up is recognized in statement of income (loss). For exchanges or parts of exchanges that involve only exploration and evaluation assets, the exchange is accounted for at carrying value.

(h) Leased assets

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under the operating leases are charged to income on a straight-line basis over the period of the lease.

(i) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in income in the period incurred. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the statement of income (loss).

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Exploration and evaluation assets are assessed for impairment when they are reclassified to property and equipment, as oil and natural gas interests, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved and probable reserves. Fair value less cost to sell is assessed utilizing market valuation based on an arm's length transaction between active participants. In the absence of any such transactions, fair value less cost to sell is estimated by discounting the expected after-tax cash flows of the cash generating unit at an after-tax discount rate that reflects the risk of the properties in the cash generating unit. The discounted cash flow calculation is then increased by a tax-shield calculation, which is an estimate of the amount that a prospective buyer of the cash generating unit would be entitled. The carrying value of the cash generating unit is reduced by the deferred tax liability associated with its property and equipment.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been objective change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or depletion, if no impairment loss had been recognized.

(j) Share based payments

The Company's compensation program currently consists of three primary components: (i) annual base salary (ii) discretionary short-term incentive cash bonus; (iii) and periodic grants of long-term incentives in the form of share awards ('equity-settled transactions'). Share awards are granted from time to time to participants at varying levels consistent with the individual's position and level of responsibility.

The Company follows the fair value method of valuing share award grants. Under this method, compensation costs attributable to share options granted to employees, officers and directors of the Company are measured at fair value at the date of grant determined in reference to the Company's share price on the grant date, and the resulting share-based payment expense is recognized on a graded-vesting basis over the related vesting period with a corresponding increase to contributed surplus.

Certain share awards have been granted with a performance multiplier. This multiplier, ranging from zero to two, will be applied at exercise and is dependent on the performance of the Company relative to pre-defined corporate performance measures for a particular period and the board of directors' discretion. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. Upon the exercise of the share awards, consideration paid together with the amount in contributed surplus is recorded as an increase to share capital.

(k) Decommissioning provision

A decommissioning liability is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Decommissioning liabilities are determined by discounting the expected future cash flows at a risk-free rate. A corresponding asset equal to the initial estimated liability is capitalized as part of the long-lived asset. The increase in the provision due to the passage of time is recognized as a finance cost in the statement of income (loss). Actual expenditures incurred are charged against the accumulated liability. Revisions to the estimated amount and timing of the obligations are reflected as increases or decreases to the decommissioning liability.

(l) Revenue

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer, which is usually when legal title passes to the external party, sales prices and costs can be reasonably measured, and it is probable that future economic benefits will flow to the entity. For natural gas, this is generally at the time product enters the pipeline. For crude oil, this is generally at the time the product reaches a trucking terminal or pipeline. For natural gas liquids, this is generally at the time the product is processed through a gas plant. Revenue is measured net of discounts, customs duties and royalties.

Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

(m) Finance expense

Finance expense comprises interest expense on borrowings and accretion of the discount on the decommissioning provision.

(n) Borrowing costs

Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. The Company considers a qualifying asset to be any significant construction project expected to take more than twelve months to complete. The capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the Company's outstanding general and specific borrowings during the period.

(o) Income tax

Income tax expense comprises current and deferred income tax. Income tax expense is recognized in the statement of income (loss) except to the extent that it relates to items recognized directly in shareholders' equity.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to income tax payable in respect of previous years. Deferred income tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting income nor taxable income. Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred income tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred income tax assets and liabilities are only offset when they arise within the same tax jurisdiction. Deferred income tax assets and liabilities are presented as non-current.

(p) Net income (loss) per share

Basic net income (loss) per share is calculated by dividing the net income (loss) of the Company by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is determined by adjusting the net income (loss) attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments. The treasury stock method assumes that proceeds received from the exercise of in-the-money stock options are used to repurchase common shares at the average market price.

(q) Dividends

Dividends are accrued when declared by the Board of Directors.

(r) Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method of accounting in which the identifiable assets acquired, liabilities assumed and any non-controlling interest are recognized and measured at their fair value at the date of acquisition. Any excess of the purchase price plus any non-controlling interest over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the purchase price over the fair value of the net assets acquired is credited to net income as negative goodwill.

At acquisition, goodwill is allocated to each of the CGUs to which it relates. Subsequent measurement of goodwill is at cost less any accumulated impairment losses.

(s) New standards and interpretations not yet adopted

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

(i) IFRS 9 Financial Instruments: Classification and Measurement uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. For financial liabilities, although the classification criteria for financial liabilities will not change under IFRS 9, the approach to the fair value option for financial liabilities may require different accounting for changes to the fair value of a financial liability as a result of changes to an entity's own credit risk. IFRS 9 is effective for annual periods beginning on or after January 1, 2015 with different transitional arrangements depending on the date of initial application. The Company is currently evaluating the impact of adopting IFRS 9 on its financial statements.

(ii) IFRS 10 Consolidated Financial Statements replaces *IAS 27 Consolidated and Separate Financial Statements* and *SIC 12 Consolidation – Special Purpose Entities*. IFRS 10 revises the definition of control and focuses on the need to have power and variable returns for control to be present. IFRS 10 provides guidance on participating and protective rights and also addresses the notion of "de facto" control. It also includes guidance related to an investor with decision making rights to determine if it is acting as a principal or agent. The standard is effective for the periods beginning on or after January 1, 2013. The adoption of this standard is not expected to have any impact on Twin Butte's financial statements.

(iii) IFRS 11 Joint Arrangements requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures*, and SIC-13 *Jointly Controlled Entities—Non-monetary Contributions by Venturers*. The standard is effective for the periods beginning on or after January 1, 2013. The adoption of this standard is not expected to have any impact on Twin Butte's financial statements.

(iv) IFRS 12 Disclosure of Interest in Other Entities replaces the disclosure requirements previously included in IAS 27, IAS 31, and IAS 28 *Investments in Associates*. It sets out the extensive disclosure requirements relating to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. An entity is required to disclose information that helps users of its financial statements evaluate the nature of and risks associated with its interests in other entities and the effects of those interests on its financial statements. The standard is effective for the periods beginning on or after January 1, 2013. The adoption of this standard is not expected to have a material impact on Twin Butte's financial statements.

(v) IFRS 13 Fair Value Measurement is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements

and in many cases does not reflect a clear measurement basis or consistent disclosures. The standard is effective for the periods beginning on or after January 1, 2013. The adoption of this standard is expected to enhance disclosure of fair value measurements but is not expected to have a material impact on Twin Butte's financial statements.

NOTE 4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates, and differences could be material. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Estimates and assumptions

Information about significant areas of estimation uncertainty in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

- Note 5 – valuation of financial instruments;
- Note 8 – valuation of property and equipment;
- Note 10 – measurement of decommissioning provision;
- Note 11 – measurement of share-based compensation; and
- Note 16 – income tax expense.

Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimates, which may have the most significant effect on the amounts recognized in the financial statements.

(a) Exploration and evaluation assets

The decision to transfer assets from exploration and evaluation to property and equipment is based on the estimated proved and probable reserves used in the determination of an area's technical feasibility and commercial viability (Note 7).

(b) Reserves base

The oil and gas development and production properties are depreciated on a unit of production ("UOP") basis at a rate calculated by reference to proved and probable reserves determined in accordance with National Instrument 51-101 "Standards of Disclosure for Oil and Gas Activities" and incorporate the estimated future cost of developing and extracting those reserves. Proved plus probable reserves are determined using estimates of oil and natural gas in place, recovery factors and future prices. Future development costs are estimated using assumptions as to number of wells required to produce the reserves, the cost of such wells and associated production facilities and other capital costs (Note 8).

Proved and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is highly likely that the actual remaining quantities recovered will exceed the estimated proved reserves. Probable reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved and probable reserves.

(c) Depletion of oil and gas assets

Oil and gas properties are depleted using the UOP method over proved plus probable reserves. The calculation of the UOP rate of depletion could be impacted to the extent that actual production in the future is different from current forecast production based on proved plus probable reserves. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves (Note 8).

(d) Determination of cash generating units

Oil and gas properties are grouped into cash generating units for purposes of impairment testing. Management has evaluated the oil and gas properties of the Company, and grouped the properties into cash generating units on the basis of their ability to generate independent cash inflows, similar reserve characteristics, geographical location, and shared infrastructure (Note 8).

(e) Impairment indicators and calculation of impairment

At each reporting date, Twin Butte assesses whether or not there are circumstances that indicate a possibility that the carrying values of exploration and evaluation assets and property and equipment are not recoverable, or impaired. Such circumstances include incidents of deterioration of commodity prices, changes in the regulatory environment, or a reduction in estimates of proved and probable reserves. At December 31, 2012, Management exercised judgement at determined that there were impairment indicators present for certain CGUs (Note 8). When management judges that circumstances clearly indicate impairment, property and equipment and exploration and evaluation assets are tested for impairment by comparing the carrying values to their recoverable amounts. The recoverable amounts of cash generating units are determined based on the higher of value in use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions that are subject to changes as new information becomes available including information on future commodity prices, expected production volumes, quantity of reserves, discount rates, as well as future development and operating costs (Note 8).

NOTE 5. FINANCIAL INSTRUMENTS

Financial instruments of the Company include accounts receivables, deposits, accounts payable and accrued liabilities, bank indebtedness, dividends payable, and derivative assets and liabilities. As at December 31, 2012, there were no significant differences between the carrying amounts reported on the Balance Sheet and the estimated fair values of these financial instruments due to the short terms to maturity and the floating interest rate on the bank indebtedness. Derivatives are carried at fair value.

	As at December 31, 2012		As at December 31, 2011	
($000's)	**Carrying Amount**	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
Financial Assets				
Held For trading				
Derivative assets	**32,022**	**32,022**	5,449	5,449
Loans and receivables				
Accounts receivable	**42,497**	**42,497**	31,731	31,731
Deposits	**744**	**744**	961	961
Financial Liabilities				
Held for trading				
Derivative liabilities	**4,815**	**4,815**	9,521	9,521
Financial Liabilities at amortized cost				
Accounts payable and accrued liabilities	**60,822**	**60,822**	31,158	31,158
Dividends payable	**3,350**	**3,350**	–	–
Bank indebtedness	**184,261**	**184,261**	80,188	80,188

Fair value is determined following a three level hierarchy:

Level 1: Quoted prices in active markets for identical assets and liabilities. The Company does not have any financial assets or liabilities that require level 1 inputs.

Level 2: Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly. Such inputs can be corroborated with other observable inputs for substantially the complete term of the contract. Twin Butte uses Level 2 inputs in the determination of the fair value of derivative assets and liabilities.

Level 3: Under this level, fair value is determined using inputs that are not observable. Twin Butte has no assets or liabilities that use level 3 inputs.

Twin Butte has an established strategy to manage the risk associated with changes in commodity prices by entering into derivatives, which are recorded at fair value as derivative assets and liabilities with gains and losses recognized through the statement of income (loss). As the fair value of the contracts varies with commodity prices, they give rise to financial assets and liabilities. The fair values of the derivatives are determined by a Level 2 valuation model, where pricing inputs other than quoted prices in an active market are used. These pricing inputs include quoted forward prices for commodities, foreign exchange rates, volatility and discounting, all of which can be observed or corroborated in the marketplace. The actual gains and 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 Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as:

- credit risk;
- liquidity risk;
- price and currency risk; and
- interest rate risk.

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from joint venture partners and oil and natural gas marketers. The maximum exposure to credit risk is as follows:

($000's)	**Dec 31, 2012**	Dec 31,2011
Accounts receivable	**42,497**	31,731
Deposits	**744**	961
Derivative assets	**32,022**	5,449
	75,263	38,141

Accounts receivable, deposits, and derivative assets are subject to credit risk exposure and the carrying values reflect management's assessment of the associated maximum exposure to such credit risk. Twin Butte mitigates such credit risk by closely monitoring significant counterparties and dealing with a broad selection of partners that diversify risk within the sector. The Company's deposits are primarily due from the Alberta Provincial government and are viewed by Management as having minimal associated credit risk. To the extent that Twin Butte enters derivatives to manage commodity price risk, it may be subject to credit risk associated with counterparties with which it contracts. The Company only enters into derivative contracts with major national banks and investment banks to mitigate associated credit risk.

Substantially all of the Company's accounts receivables are due from customers and joint operation partners concentrated in the Canadian oil and gas industry. As such, accounts receivables are subject to normal industry credit risks. The Company generally extends unsecured credit to these customers and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by entering into transactions with long-standing, reputable, counterparties and partners. Wherever possible, the Company requires cash calls from its partners on capital projects before they commence. Receivables related to the sale of the Company's petroleum and natural gas production are mainly from major marketing companies who have very good credit ratings. These revenues are normally collected on the 25th day of the month following delivery. As at December 31, 2012, $2.0 million or 4.8% of accounts receivables are outstanding for 90 days or more (December 31, 2011 – $4.1 million or 12.7% of accounts receivables). The Company believes that the entire net balance is collectible, and in some instances we have the ability to mitigate risk through withholding production or offsetting payables with the same parties. Management has provided for an allowance for doubtful accounts of $0.4 million at December 31, 2012 (December 31, 2011 – $0.4 million).

(b) Liquidity risk

The Company is subject to liquidity risk attributed from accounts payable and other accrued liabilities, bank indebtedness, other liabilities, and derivative liabilities. Accounts payable and other accrued liabilities, and derivative liabilities are primarily due within one year of the balance sheet date and Twin Butte does not anticipate any problems in satisfying the obligations from cash provided by operating activities and the existing credit facility. The Company's bank indebtedness is subject to a $280 million revolving credit facility agreement. Although the credit facility is a source of liquidity risk, the facility also mitigates liquidity risk by enabling Twin Butte to manage interim cash flow fluctuations.

The revolving credit facility contains standard commercial covenants for facilities of this nature. The only financial covenant is a requirement for Twin Butte to maintain a current ratio of not less than 1.0:1.0, and such ratio is to be tested at the end of each fiscal quarter. Current ratio is defined as the ratio of (i) current assets, excluding financial derivatives, plus any undrawn availability under the credit facility to (ii) current liabilities, excluding financial derivatives and the drawn portion of the credit facility. The Company is in compliance with its financial covenants.

The timing of cash outflows relating to financial liabilities as at December 31, 2012 and 2011 are as follows:

December 31, 2012	**Less than one year**	**One to three years**	**Three to five years**	**Thereafter**	**Total**
Trade and accrued liabilities	**60,822**	**–**	**–**	**–**	**60,822**
Derivative liability	**2,821**	**1,994**	**–**	**–**	**4,815**
Bank indebtedness – principal	**–**	**184,261**	**–**	**–**	**184,261**
Bank indebtedness – interest	**7,370**	**7,370**	**–**	**–**	**14,740**
Dividend Payable	**3,350**	**–**	**–**	**–**	**3,350**
	74,363	**193,625**	**–**	**–**	**267,988**

December 31, 2011	Less than one year	One to three years	Three to five years	Thereafter	Total
Trade and accrued liabilities	31,158	–	–	–	31,158
Derivative liability	6,419	3,102	–	–	9,521
Bank indebtedness – principal	80,188	–	–	–	80,188
Bank indebtedness – interest	3,159	–	–	–	3,159
	120,924	3,102	–	–	124,026

The Company's bank indebtedness does not have specific maturity dates. It is governed by a credit facility agreement with a syndicate of financial institutions (Note 10). Under the terms of the agreement, the facility is reviewed annually, with the next review scheduled in April 2013. The facility is revolving and is extendible at each annual review for a further 364 day period at the option of the syndicate. If not extended, the credit facility is converted at that time into a one-year facility with the principal payable at the end of the one-year term. Management fully expects that the facility will be extended at each annual review.

(c) Price and currency risk

Twin Butte's derivative assets and liabilities are subject to both price and currency risks as their fair values are based on assumptions including forward commodity prices and foreign exchange rates. The Company may use derivative financial instruments from time to time to hedge its exposure to commodity prices, foreign exchange and interest rate fluctuations. The mark-to-market valuation of these contracts is presented in the Company's financial statements.

These valuations are based on forward looking estimates including, but not limited to, volatility, interest rates and commodity prices.

To the extent that Twin Butte enters derivatives to manage commodity price risk, it may be subject to liquidity risk as derivative liabilities become due. While the Company has elected not to follow hedge accounting, derivative instruments are not entered for speculative purposes and management closely monitors existing commodity risk exposures. As such, liquidity risk is partially mitigated since losses realized can be offset by increased cash flows realized from the higher commodity price environment.

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

	Twelve months ended December 31	
	2012	2011
Realized gain (loss)	**29,401**	1,686
Unrealized gain (loss)	**32,510**	(1,385)
Gain (loss) on derivatives	**61,911**	301

Derivative Position

As at	**Dec 31, 2012**	Dec 31, 2011
Derivatives		
Current asset	**32,022**	5,449
Non-current asset	**–**	–
Current liability	**(2,821)**	(6,419)
Non-current liability	**(1,994)**	(3,102)
Net derivative asset (liability) position	**27,207**	(4,072)

Crude Oil Sales Price Derivatives

Daily barrel (bbl) quantity	Remaining term of contract	Fixed price per bbl ($CAD)	Fixed written call price per bbl WTI (1) ($USD)	Fixed $ WCS (2) vs. bbl WTI (1)	Fair market value $000's
4,500	January 1, 2013 to December 31, 2013	$96.75			5,713
2,500	January 1, 2013 to March 31, 2013	$98.24			1,381
3,000	April 1, 2013 to June 30, 2013	$99.08			1,540
1,500	July 1, 2013 to September 30, 2013	$98.70			670
1,000	January 1, 2013 to June 30, 2013	$96.32			643
4,500	January 1, 2013 to December 31, 2013			(20.57)	13,434
1,500	January 1, 2013 to March 31, 2013			(19.50)	1,794
1,000	January 1, 2013 to June 30, 2013			(19.65)	2,104
3,300	January 1, 2013 to December 31, 2013		$108.03		(2,370)
1,300	January 1, 2014 to December 31, 2014		$110.00		(1,994)
Crude oil fair value position					22,915

(1) WTI represents posting price of West Texas Intermediate oil

(2) 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	Fair Market value $000's
7,800	January 1, 2013 to December 31, 2013	$ 4.50	$ 4,292
Natural gas fair value position			$ 4,292

Twin Butte monitors and, when appropriate, utilizes financial derivative contracts or physical delivery contracts to manage the risk associated with changes in commodity prices. The use of derivative instruments is governed under formal policies and is subject to limits established by the Board of Directors of Twin Butte. Under the Company's risk management policy, financial derivatives are not to be used for speculative purposes.

When assessing the potential impact of oil price changes on the financial derivative contracts outstanding as at December 31, 2012, a 10% increase would decrease net income for the year ended December 31, 2012 by $33 million, while a 10% decrease would increase net income for the year ended December 31, 2012 by $33 million.

When assessing the potential impact of natural gas price changes on the financial derivative contracts outstanding as at December 31, 2012, a 10% decrease would increase net income for the year ended December 31, 2012 by $1.3 million, while a 10% increase would decrease net income for the year ended December 31, 2012 by $1.3 million.

(d) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The interest charged on the outstanding bank indebtedness fluctuates with the interest rates posted by the lenders. The Company is exposed to interest rate risk and has not entered into any mitigating interest rate hedges or swaps. Had the borrowing rate been 1 percent higher throughout the year ended December 31, 2012, net income would have decreased by $5.3 million (December 31, 2011 – $0.6 million) based on the average debt balance outstanding during the period.

(e) Capital management

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

In the management of capital, the Company includes working capital and total net debt (2) in the definition of capital. The Company's share capital is not subject to external restrictions; however, its credit facility value is based primarily on its petroleum and natural gas reserves and there are covenants Twin Butte must comply with (Note 10). The Company was in compliance with all of its financial covenants at the end of each reporting period.

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

	Dec 31, 2012	Dec 31,2011
Bank indebtedness	**184,261**	80,188
Working capital deficit (surplus) (1)	**17,442**	(3,020)
Net debt (2)	**201,703**	77,168
Shareholders' Equity	**471,501**	181,396
Net Debt to Equity (2)	**0.43**	0.43

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

(2) Net debt and net debt to equity are non-GAAP measures. Net debt is defined as the sum of current assets and current liabilities including bank indebtedness and other liabilities less financial derivatives, whereas net debt to equity is the ratio of net debt compared to equity.

As at December 31, 2012, the Company utilized $184.3 million of its dedicated credit facility. The working capital deficit of $17.4 million and bank debt of $184.3 million resulted in $201.7 million of net debt (December 31, 2011 – $77.2 million). The Company strives to maintain a debt to equity level below 0.50. The debt to equity level at December 31, 2012 and December 31, 2011 was below this level, at 0.43.

The credit facility, which consists of a revolving line of credit of $255 million and an operating line of credit of $25 million, is subject to a borrowing base review performed on a periodic basis by the banking syndicate, based primarily on reserves, commodity prices estimated by the lenders and other factors. A decrease to the borrowing base could lead to a reduction in the credit facility which may require repayment to the lenders. Following the close of the Waseca transaction in November 2012, the revolving credit facility was upgraded from a demand facility to a dedicated revolving facility and the capacity was increased from $240 million to its current capacity of $280 million.

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

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

NOTE 6. BUSINESS COMBINATIONS & ASSET ACQUISITIONS

If all of the business combinations completed and described below had occurred on January 1, 2012, Management estimates that Twin Butte's revenue would have increased by $92.2 million and net earnings would have increased by $4.9 million. This pro-forma information would not necessarily be indicative of results had the acquisitions occurred on January 1, 2012.

(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		12,067
Net working capital		(60,028)
Decommissioning obligation		(23,072)
Negative goodwill		(1,330)
Total net assets acquired	$	134,264

The net working capital 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	$	(60,028)

Consideration		Total
Common Shares (54,138,883 shares at $2.48 per share)	$	134,264

The recognized amounts of identifiable assets and liabilities assumed are best estimates by Twin Butte's management and are based on valuations prepared by external engineers. Subsequent to the initial accounting of this business combination, the amount recorded for the deferred income tax asset was reduced, therefore decreasing the initial bargain purchase gain. The adjusted fair value of net assets acquired exceeded the consideration and a bargain purchase of $1.3 million was included in net income (loss) during the twelve months ended December 31, 2012. The fair value of property and natural gas properties over the total consideration paid gave rise to the gain on purchase. The decommissioning obligation was fair valued using the credit–adjusted rate of 6%.

The transaction 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 December 31, 2012, the acquisition contributed revenues of $128.5 million and net earnings of $10.4 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. This property acquisition was recognized as a business combination in accordance with IFRS 3 Business Combinations, as the assets acquired met the definition of a business. The acquisition has been accounted for using the acquisition method, and the recognized amounts of identifiable asset acquired and liabilities assumed at fair value are as follows: $13.5 million of Petroleum and natural gas properties, $1.3 million of E&E assets, and $0.7 million in decommissioning obligation. The asset was acquired with full tax pools and no working capital items.

The transaction costs related to the acquisition amounted to $0.1 million and were expensed in the statement of income (loss) and comprehensive income (loss). In the period from April 1, 2012 to December 31, 2012, the acquisition contributed revenues of $5.4 million and net earnings of $1 million which are included in the statement of income (loss) and comprehensive income (loss).

(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 private 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	$	68,000
Exploration and evaluation assets		30,247
Deferred income tax liability		(9,459)
Net working capital		(33,814)
Decommissioning obligation		(4,979)
Goodwill		15,319
Total net assets acquired	$	65,314

The net working capital 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	$	(33,814)

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

The recognized amounts of identifiable assets and liabilities assumed are best estimates by Twin Butte's management. Subsequent to the initial accounting of this business combination, estimates were revised to be based principally on valuations prepared by external engineers, resulting in a decrease in the fair value of the petroleum and natural gas properties. The consideration paid exceeded the fair value of net assets acquired and goodwill was recognized in the amount of $15.3 million. A portion of this goodwill relates to the increase in Twin Butte's share price from the initial valuation date, to the close of the transaction. The decommissioning obligation was fair valued using the credit–adjusted rate of 6%. The accounting for the business combination remains subject to further refinement as additional cost estimates and tax balances are finalized.

The transaction 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 December 31, 2012, the acquisition contributed revenues of $13.0 million and net earnings of $1.3 million, which are included in the statement of income (loss) and comprehensive income (loss).

(d) Acquisition of Waseca Energy

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, for total consideration of $145 million. 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 purpose of the acquisition was to increase Twin Butte's presence and size in its core heavy oil fairway allowing for operating synergies. Waseca was amalgamated with Twin Butte following the completion of the Acquisition and the transaction 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 Waseca:

	Total
Petroleum and natural gas properties	135,000
Exploration and evaluation assets	16,288
Net working capital	10,787
Deferred income tax liability	(28,057)
Decommissioning obligation	(5,242)
Goodwill	16,083
Total net assets acquired	$ 144,859

The net working capital asset consists of the following:

	Total
Accounts receivable	8,209
Deposits and prepaid expenses	134
Accounts payable and accrued liabilities	(12,322)
Cash	14,766
Net working capital	$ 10,787

Consideration

	Total
Common Shares (30,222,481 shares at $2.92 per share)	88,159
Cash	56,700
	$ 144,859

The recognized identifiable assets and liabilities assumed were based on best estimates by Twin Butte's management and were based on valuations prepared by external engineers. The consideration paid exceeded the fair value of net assets acquired and goodwill was recognized in the amount of $16.1 million. Goodwill was recognized on this transaction due to the rise in Twin Butte's share price from the initial valuation date, to the close of the transaction. The decommissioning obligation was fair valued using the credit–adjusted rate of 6%. The accounting for the business combination remains subject to further refinement as additional cost estimates and tax balances are finalized.

The transaction costs related to the acquisition amounted to $1.1 million and were expensed in the statement of income (loss) and comprehensive income (loss). In the period from November 1, 2012 to December 31, 2012, the acquisition contributed revenues of $10.9 million and net earnings of $0.07 million which are included in the statement of income (loss) and comprehensive income (loss).

(e) Auburndale Asset Acquisition

On October 4, 2012, Twin Butte completed the acquisition of assets in the Auburndale area for cash consideration of $20.4 million. This property acquisition was recognized as a business combination in accordance with IFRS 3 Business Combinations, as the asset met the definition of a business. The acquisition has been accounted for using the acquisition method, and the recognized amounts of identifiable assets acquired and liabilities assumed at fair value are as follows: $21.4 million of petroleum and natural gas assets, $1.7 million of E&E assets, and $2.7 million of decommissioning obligations. This property acquisition was acquired with full tax pools and no working capital items.

In the period from October 4, 2012 to December 31, 2012, the acquisition contributed revenues of $2.4 million and net earnings of $0.5 million which are included in the statement of income (loss) and comprehensive income (loss).

NOTE 7. EXPLORATION AND EVALUATION ASSETS

Balance at December 31, 2010	$	19,897
Acquisitions		1,869
Transferred to property, plant and equipment (note 6)		(39)
Dispositions		(547)
Exploration and evaluation expense – land expiries		(4,136)
Balance at December 31, 2011	$	17,044
Acquisitions and purchases	$	54,305
Transferred to property, plant and equipment (note 8)		(49)
Dispositions		(483)
Exploration and evaluation expense – land expiries		(5,038)
Balance at December 31, 2012	**$**	**65,779**

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. Expense of $5.0 million was recognized ($4.1 million – December 31, 2011) for current and future land expiries for which management has neither budgeted nor planned further exploration.

NOTE 8. 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 7)	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	93,455	–	93,455
Acquisitions	406,000	–	406,000
Changes in decommissioning provision	13,737	–	13,737
Transfers from evaluation assets (note 7)	49	–	49
Disposals	(8,015)	–	(8,015)
Balance at December 31, 2012	**$ 892,335**	**$ 219**	**$ 892,554**
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	99,471	–	99,471
Impairment expense	17,237	–	17,237
Disposals	(4,331)	–	(4,331)
Balance at December 31, 2012	**$ 223,007**	**$ 219**	**$ 223,226**
Net Carrying Value:			
December 31 , 2011	276,479	–	276,479
December 31, 2012	**669,328**	**–**	**669,328**

At December 31, 2012, the Company assessed for indicators of impairment for all of its CGU's. Reductions to long term forecasted future natural gas benchmark pricing indicated that CGUs that produce a high level of natural gas may be impaired. For the purposes of determining whether impairment of assets has occurred, and the extent of any impairment or its reversal, management exercises their judgment in estimating future cash flows for the recoverable amount, being the higher of fair value less costs to sell and value in use. These key judgments include estimates about recoverable reserves (see Note 4 – Significant accounting judgments estimates and assumptions), forecast benchmark commodity prices, royalties, operating costs and discount rates.

Twin Butte estimated the recoverable amount for these CGUs based on the fair value less costs to sell, determined with an after-tax discount rate of 9.5 percent (December 31, 3011 – 10 percent), forecasted cash flows over the estimated life of reserves, and an independent industry reserve engineer price deck. The discount rate is derived from the post-tax weighted average cost of capital for Twin Butte's peer group. The forecasted cash flows are prepared over the estimated life of the reserves in the CGU's. The commodity prices used to estimate the fair value less cost to sell are those used by independent industry reserve engineers. Based on the assessment, the carrying value of the Deep Basin, Plains, and West-Central CGUs were determined to be lower than their respective recoverable amounts and a total non-cash impairment charge of $17.2 million was recognized. At December 31, 2011, due to sustained low natural gas current and forward prices, the Company impaired the Pincher Creek, Plains and Deep Basin CGUs for $40.3 million.

The following table outlines forecasted commodity prices used in Twin Butte's CGU impairment tests at December 31, 2012. The Canadian to US dollar exchange rate is forecasted at 1.00.

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Thereafter
WTI (US$/bbl)	92.50	92.50	93.60	95.50	97.40	99.40	101.40	103.40	105.40	107.60	2%
Alberta AECO (Cdn$/mcf)	3.35	3.85	4.35	4.70	5.10	5.45	5.55	5.70	5.80	5.90	2%

The following table indicates the change to the December 31, 2012 impairment of the property, plant and equipment with a 1% percent change to the discount rate:

	1% rate increase	1% rate decrease
Discount rate	6,925	(5,883)

The Company capitalized $3.2 million of general and administrative expenses ($2.6 million – December 31, 2011) and $2.5 million of share based expenses ($1.1 million – December 31, 2011) directly related to development and production activities for the twelve months ended December 31, 2012.

Future development costs on proved plus probable undeveloped reserves of $261.9 million as at December 31, 2012 are included in the calculation of depletion ($153.1 million – December 31, 2011).

During the twelve months ended December 31, 2012, Twin Butte completed the sale of a combination of non-core properties in Alberta for net proceeds of $6.9 million ($11.9 million – December 31, 2011). A $3.0 million gain was recognized on these transactions for the twelve months ended December 31, 2012 ($2.6 million – December 31, 2011).

NOTE 9. GOODWILL

Balance at December 31, 2011	$	–
Acquisition of Avalon	$	15,319
Acquisition of Waseca	$	16,083
Balance at December 31, 2012	**$**	**31,402**

Goodwill recorded in 2012 has been allocated to the Heavy Oil CGU. At December 31, 2012, the Company completed an impairment test of this CGU and estimated the recoverable amount, being the fair value less costs to sell, to be $615 million. This recoverable amount exceeded the carrying value of the CGU, including goodwill, and as such, no goodwill impairment existed.

For the purposes of determining whether impairment of goodwill has occurred, management exercises their judgment in estimating future cash flows for the recoverable amount, being the higher of fair value less costs to sell and value in use. The estimated recoverable reserves, forecast benchmark commodity prices, royalties, operating costs and discount rate used in the impairment calculation of goodwill are equivalent to those outlined in Note 8 – Property and Equipment for the impairment test of property and equipment at December 31, 2012. The Company used an after-tax discount rate of 9.5 percent. A 1 percent increase or decrease in the after-tax discount rate would not create nor reduce impairment of goodwill.

NOTE 10. BANK INDEBTEDNESS

In November 2012, the Company replaced the demand revolving credit facility with a dedicated facility consisting of a revolving line of credit of $255 million and an operating line of credit of $25 million, available on a revolving basis until April 30, 2013, extendible annually at the request of the Company for a further 364 days, subject to approval of the lenders and repayable one year after the expiry of the revolving period. The credit facility is with a syndicate of four Canadian chartered or international banks and provides that advances may be made by way of Canadian prime rate and U.S. base rate loans, bankers' acceptances, LIBOR Loans, or standby letters of credit/guarantees.

Interest rates on Canadian prime rate loans fluctuate based on revised pricing grid and range from Bank of Canada ("bank") prime plus 1% to bank prime plus 2.5%, depending upon the Company's debt to earnings before interest, taxes, depreciation and amortization (EBITDA) ratio for the preceding four quarters in categories ranging from one to greater than three times. A debt to EBITDA ratio of less than one has interest payable at the bank's prime lending rate plus 1%. A debt to EBITDA ratio greater than three has interest payable at the bank's prime lending rate plus 2.5%.

The borrowing base of the facility 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 and is secured by a $750 million debenture and a general security agreement covering all assets of the Company.

The bank currently charges prime plus 1%. The effective rate for the twelve months ended December 31, 2012 was 4.21% (3.5% – December 31, 2011). As at December 31, 2012 Twin Butte is in compliance with all financial covenants.

NOTE 11. 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 $89.0 million at December 31, 2012 ($38.4 million – December 31, 2011), based on a total future liability of $127.7 million ($41.7 million – December 31, 2011). Payments to settle the obligations occur over the operating lives of the underlying assets, estimated to be from 2 to 50 years with the majority of the costs to be incurred after 2025. 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:

	2012	2011
Decommissioning provision, beginning of year	**38,401**	30,274
Liabilities incurred	**3,195**	2,442
Liabilities settled	**(1,140)**	(1,067)
Liabilities acquired from acquisitions	**36,748**	276
Liabilities reduced from dispositions	**(378)**	(1,263)
Effect of change in risk free rate (1)	**16,187**	5,365
Revisions in estimated cash outflows	**(5,645)**	1,296
Accretion of decommissioning provision	**1,623**	1,078
Decommissioning provision, end of year	**88,991**	38,401

(1) These amounts relate to the revaluation of acquired decommissioning liabilities at the end of the period using a risk-free discount rate. At the date of acquisition, acquired decommissioning liabilities are valued using a credit adjusted risk-free discount rate.

Sensitivities

Changes to the risk-free rate or the inflation rate would have the following impact on the decommissioning liabilities:

At December 31	**2012**		2011	
	Risk-free rate	**Inflation rate**	Risk-free rate	Inflation rate
One percent increase	**(10,713)**	**13,189**	(5,365)	7,023
One percent decrease	**13,261**	**(10,857)**	7,062	(5,434)

NOTE 12. 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 December 31, 2010	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
Shares issued pursuant to acquisition of Waseca	30,222	88,159
Common shares issued under share award plan	3,271	6,052
Common shares issued under option plan	102	241
Issued pursuant to the DRIP	636	1,676
Other	(31)	–
Balance at December 31, 2012	**248,312**	**523,226**

During the twelve months ended December 31, 2012, Twin Butte issued shares to complete the following acquisitions:

- January 10, 2012 – Twin Butte completed the acquisition of Emerge by issuing 54,138,883 shares.
- August 29, 2012 – Twin Butte completed the acquisition of Avalon by issuing 24,554,027 shares.
- November 1, 2012 – Twin Butte completed the acquisition of Waseca by issuing 30,222,481 shares and $56.7 million in cash.

For the twelve months ended December 31, 2012, there were also 3,534,870 share awards exercised by employees and 101,499 stock options exercised for $0.2 million in proceeds. In 2011, all remaining warrants outstanding were exercised or expired.

The total number of shares reserved for Share-based payments is 24,831,200 (13,541,894 – December 31, 2011). As at December 31, 2012 there were 4,199,716 common share awards, included reinvested dividends (Nil – December 31, 2011) and 895,434 (10,027,636 – December 31, 2011) options outstanding under the plans or a total of 2.1% of outstanding shares.

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. Twin Butte increased its monthly dividend by 6.7 percent from $0.015 to $0.016 ($0.192 annually) per issued and outstanding common share commencing for shareholders of record November 30, 2012. Dividends declared during the twelve months ended December 31, 2012 totaled $37.2 million, equivalent to $0.182 per share ($Nil – December 31, 2011).

Share-based payments

(a) Share award 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, and the Board has reserved up to 10% of outstanding Common Shares less outstanding options for issuance to eligible participants. A portion of share awards are granted with a performance factor feature, where upon vesting, the share award is multiplied by a factor between 0 and 2. Annual performance factors are set by the board of directors and dependent on the performance of the Company relative to pre-defined corporate performance measures for the period. 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 following table sets forth a reconciliation of share award incentive plan activity through December 31, 2012:

	Restricted share awards	Weighted average fair value at grant date	Performance share awards	Weighted average fair value at grant date
Outstanding at January 1, 2012	–	–	–	–
Converted	4,638,938	1.27	–	–
Granted	1,603,529	2.53	1,224,734	2.54
Granted – Performance Factor Grant	–	–	429,754	2.54
Exercised	(3,534,870)	1.16	–	–
Reinvested dividends	199,931	1.96	63,271	2.50
Forfeited	(425,571)	2.41	–	–
Outstanding at December 31, 2012	**2,481,957**	**$ 2.17**	**1,717,759**	**$ 2.54**

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 $4.4 million for the twelve months ended December 31, 2012 (December 31, 2011 – $1.4 million).

A 35% forfeiture rate were used to estimate the Company's share-based payment expense for the three and twelve months ended December 31, 2012 (December 31, 2011: 45%). In December 2012, the Board of Directors approved a performance factor of 2 for share awards vesting in 2013. As this factor was estimated at 1 upon granting, this resulted in an additional 429,754 of share awards granted and $0.7 million of expense in 2012.

(b) Stock option plan

Since the conversion to the new Share Award Plan, there have been no further stock options granted and remaining outstanding options will be either exercised or forfeited. All remaining options have a maximum term of five years and vest in equal one-third increments on each anniversary of the grant. Stock options were 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 December 31, 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	(101,499)	1.62
Cancelled/Converted	(9,030,703)	1.50
Outstanding at December 31, 2012	**895,434**	**$ 2.65**

There were 279,699 options exercisable as at December 31, 2012 (3,660,864 – December 31, 2011) at an average exercise price of $2.60 per share ($1.21 – December 31, 2011). The following table outlines the weighted average exercise price and weighted average years to expiry of all outstanding options:

	December 31, 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
$0.92 – 1.24	**10,000**	**1.89**	**0.98**	1,685,334	1.02	2.25
$1.25 – 1.51	**11,667**	**2.26**	**1.31**	2,929,734	1.34	3.34
$1.52 – 3.32	**873,767**	**3.39**	**2.68**	4,297,400	2.25	4.18
	895,434	**2.65**	**3.36**	10,027,636	1.60	3.40

No options were granted in 2012. The fair value of each option granted in 2011 was estimated on the date of grant using the Black-Scholes option pricing model and the following assumptions: Volatility–68%; Risk free rate of return–1.73%; Expected stock option life–3 years; and Dividend yield rate–0%. Volatility was measured at the standard deviation of continuously compounded share returns based on statistical analysis of daily share of Twin Butte. The weighted average fair value of stock options granted in 2011 was $1.18.

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:

	Twelve months ended December 31	
Net income (loss) for the period	**$ 31,530**	$ (19,021)
Weighted average number of basic shares (000's)	**204,181**	133,936
Effect of dilutive securities:		
Employee stock options (000's)	**1,400**	–
Weighted average number of diluted shares (000's)	**205,581**	133,936
Net income (loss) per share basic ($)	**0.15**	(0.14)
Net income (loss) per share diluted ($)	**0.15**	(0.14)

Diluted income per share amounts reflect the potential dilution that could occur if stock options were exercised and share awards were converted. The treasury stock method is used to determine the dilutive effect, whereby any proceeds from the exercise and the amount of compensation expense, if any, attributed to future services not yet recognized, are assumed to be used to purchase common share at the average market price during the periods.

In calculating the weighted average number of diluted shares for the twelve months ended December 31, 2012, we excluded 2,195,500 share options (2011 – 4,004,070) because their exercise price was greater than the average common share market price in the year. Also excluded were 2,820,934 unvested share awards with compensation expense attributed to future services greater than the average common share market price. In 2012 and 2011, outstanding share options and share awards were the only potentially dilutive instruments.

NOTE 13. REVENUES PER PRODUCT:

	Twelve months ended December 31	
	2012	2011
Heavy oil	**262,316**	87,163
Light & Medium oil	**21,338**	25,211
Natural gas	**13,178**	25,467
Natural gas liquids	**7,897**	8,736
Total petroleum and natural gas sales	**304,729**	146,577

NOTE 14. GENERAL & ADMINISTRATION ("G&A") EXPENSES

	Twelve months ended December 31	
	2012	2011
Staff salaries and benefits	**$ 9,660**	$ 6,884
Rent and insurance	**968**	600
Office and other costs	**5,573**	3,964
Capitalized "G&A"	**(3,190)**	(2,579)
Capitalized overhead recoveries	**(2,404)**	(2,562)
	$ 10,607	$ 6,307

NOTE 15. FINANCE EXPENSE

	Twelve months ended December 31	
	2012	2011
Accretion on decommissioning provision	**$ 1,623**	$ 1,078
Interest and bank charges	**5,679**	2,981
Total	**$ 7,302**	$ 4,059

NOTE 16. SUPPLEMENTAL CASH FLOW INFORMATION

	Twelve months ended December 31	
	2012	2011
Changes in non-cash working capital:		
Accounts receivable	**$ 9,903**	$ (4,373)
Deposits and prepaid expenses	**(851)**	6
Accounts payable and accrued liabilities	**447**	3,026
Dividends Payable	**(3,350)**	–
	$ 6,149	$ (1,341)
Changes in non-cash working capital relating to:		
Operating activities	**$ (3,127)**	$ 2,916
Investing activities	**12,626**	(4,257)
Financing activities	**(3,350)**	–
	$ 6,149	$ (1,341)

NOTE 17. INCOME TAX EXPENSE

a) Deferred income tax expense:

The provision for income taxes reflects an effective tax rate which differs from Federal and Provincial statutory tax rates. The main differences are as follows:

For the years ended	**2012**	2011
Income (loss) before taxes	**$ 45,116**	$ (22,041)
Statutory income tax rate	**26.0%(1)**	26.5%
Expected income taxes	**11,730**	(5,841)
Stock based compensation	**1,141**	369
Change in expected tax rate	**(396)**	310
Nondeductible transaction costs	**687**	–
Negative goodwill	**(346)**	–
Return to provision true-up and other	**770**	2,142
Deferred income tax expense / (recovery)	**$ 13,586**	$ (3,020)
Effective tax rate	**30.1%**	**13.7%**

(1) The statutory rate consists of the combined statutory tax rate for the Company for the years ended December 31, 2012 and December 31, 2011. The general combined Federal/Provincial tax rate in Alberta was reduced to 25.0% in 2012 from 26.5% in 2011 due to the Federal rate dropping from 16.5% in 2011 to 15.0% in 2012. This rate has increased from 25% due to increased revenue in Saskatchewan.

b) Deferred income tax liability:

At December 31, 2012 a deferred tax liability of $31.5 million (2011 – asset of $7.5 million) has been recognized.

	2012	2011
Property, plant, and equipment	**$ (60,116)**	$ (5,984)
Decommissioning	**23,138**	9,600
Commodity derivatives	**(7,074)**	–
Share issue cost	**538**	583
Eligible scientific research & experimental development expenditures	**3,770**	3,625
Non-capital loss carryforwards	**13,007**	4,784
Other	**–**	(310)
Unrecognized deferred tax assets	**(4,784)**	(4,784)
Deferred income tax (liability)/asset	**$ (31,521)**	$ 7,514

Unrecognized deferred tax assets relate to resource tax pools where there is uncertainty as to whether a taxable benefit will be available in the future. Non-capital loss carryforwards expire no earlier than 2023.

c) Components of the net deferred income tax liability:

	Dec 31, 2012	Dec 31, 2011
Deferred tax assets:		
Deferred tax assets to be recovered after more than 12 months	**22,554**	12,915
Deferred tax assets to be recovered within 12 months	**13,115**	583
	35,669	13,498
Deferred tax liabilities:		
Deferred tax liabilities to be recovered after more than 12 months	**(43,304)**	(5,984)
Deferred tax liabilities to be recovered within 12 months	**(23,886)**	–
	(67,190)	(5,984)
Deferred tax (liability)/asset	**(31,521)**	7,514

The deferred income tax liabilities and assets to be settled (recovered) within 12 months represents Management's estimate of the timing of the reversal of temporary differences and does not relate to the current income tax expense (if any) in the subsequent year.

d) Movement in Deferred Tax Assets & Liabilities:

Deferred Income Tax Liabilities	Property, Plant and Equipment	Risk Management	Total
As at December 31, 2011	5,984	–	5,984
Acquired	46,832	308	47,140
Charged/(credited) to earnings	7,300	6,766	14,066
As at December 31, 2012	**60,116**	**7,074**	**67,190**

Deferred Income Tax Assets	Decommissioning Liabilities	Tax Pools	Total
As at December 31, 2011	(9,600)	(3,898)	(13,498)
Acquired	(8,376)	(13,315)	(21,691)
Charged/(credited) to earnings	(5,162)	4,682	(480)
As at December 31, 2012	**(23,138)**	**(12,531)**	**(35,669)**

Net Deferred Income Tax Liability	Total
As at December 31, 2011	(7,514)
Acquired	25,449
Charged/(credited) to earnings	13,586
As at December 31, 2012	**31,521**

NOTE 18. ACCOUNTS RECEIVABLE

As At	Dec 31, 2012	Dec 31, 2011
Trade	**27,288**	14,970
Joint Operations with Partners	**9,592**	17,073
Other	**5,617**	(312)
	42,497	31,731

NOTE 19. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As At	Dec 31, 2012	Dec 31, 2011
Trade	**29,978**	13,690
Royalties	**4,815**	3,666
Joint Operations with Partners	**2,050**	3,027
Accruals	**23,979**	10,775
	60,822	31,158

NOTE 20. RELATED PARTY TRANSACTIONS

During the twelve month period ended December 31, 2012, the Company incurred costs totaling $6.9 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 December 31, 2012, the Company had $4.3 million ($0.1 million – December 31, 2011) included in accounts payable and accrued liabilities related to these transactions.

Key Management Compensation

Key management includes Directors (executive and non-executive), the Executive Officers, and the Vice-Presidents. The compensation paid or payable to key management is as follows:

	Twelve months ended December 31	
	2012	2011
Salaries, Director Fees and benefits	**3,412**	2,679
Stock Based Compensation	**3,393**	794
	6,805	3,473

As at December 31, 2012, there is a $1.8 million commitment (December 31, 2011 – $1.6 million) relating to change of control or termination of employment of key management personnel.

NOTE 21. COMMITMENTS AND CONTINGENCIES

Twin Butte is responsible for the retirement of long-lived assets related to its oil and gas properties at the end of their useful lives. Twin Butte has recognized a liability of $89.0 million (Dec 31, 2011 – $38.4 million) based on current legislation and estimated costs. Actual costs may differ from those estimated due to changes in legislation or actual costs.

Contractual obligations and commitments for base office rent and equipment are as follows:

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

The Company has income tax filings that are subject to audit and potential reassessment. The findings may impact the tax liability of the Company. The final results are not reasonably determinable at this time and management believes that it has adequately provided for current and deferred income taxes.

Twin Butte is also involved in various claims and litigation arising in the normal course of business. While the outcome of these matters is uncertain and there can be no assurance that such matters will be resolved in the Company's favor, the Company does not currently believe that the outcome of adverse decisions in any pending or threatened proceedings related to these and other matters would have a material adverse impact on its financial position, results of operations or liquidity.

NOTE 22. SUBSEQUENT EVENTS

Crude Oil Sales Price Derivative Contracts

Subsequent to December 31, 2012 the Company entered into crude oil price derivatives, for the remainder of 2013 and extending into 2014. The average barrels and prices for these derivatives are as follows:

Daily barrel (boe) quantity	Term of contract	Fixed price per boe ($ WTI)	Fixed $ WCS vs. boe (WTI)
2,583	Various – January to December 2013	$95.16	
2,291	Various – January to December 2013		($22.11)
4,250	Various – January to December 2014	$95.74	
2,250	Various – January to December 2014		($20.84)

Crude Oil Swaption Derivative Contracts

Subsequent to December 31, 2012 the Company sold Crude Oil Swaptions. The holders of the swaptions have the right to exercise the option portion during the exercise period, and enter into WTI fixed call swaps with the Company. The following swaptions have been sold:

Daily barrel (boe) quantity	Option contract expiry	Term of underlying WTI fixed call	Fixed call price per boe ($CAD or US WTI)	Sale Proceeds *($000's)*
2000	March 28, 2013	April 1, 2013 to December 31, 2013	$US 95.00	$ 1,870
1000	June 28, 2013	July 1, 2013 to December 31, 2013	$US 95.00	$ 828
3000	June 30, 2013	January 1, 2014 to December 31, 2014	$US 100.00	$ 1,935
2000	September 30, 2013	January 1, 2014 to December 31, 2014	$US 100.00	$ 1,942
1000	December 31, 2013	January 1, 2014 to December 31, 2014	$US 100.00	$ 1,369
2000	December 31, 2013	January 1, 2014 to June 30, 2014	$C 100.00	$ –

CORPORATE INFORMATION

OFFICERS

Jim Saunders
President & Chief Executive Officer

Bob Bowman
Vice President, Operations

Neil Cathcart
Vice President, Business Development

Claude Gamache
Vice President, Geosciences

Bruce W. Hall
Chief Operating Officer

Gordon Howe
Vice President, Land

Preston Kraft
Vice President, Engineering

R. Alan Steele
Vice President, Finance & CFO

BOARD OF DIRECTORS

David Fitzpatrick (1) (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 (2)

Member of:

(1) Audit Committee
(2) Reserves Committee
(3) Compensation, Nominating and Governance Committee

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BANKERS

National Bank of Canada
Calgary, AB

SOLICITORS

Burnet, Duckworth & Palmer LLP
Calgary, AB

ENGINEERS

McDaniel & Associates Consultants Ltd.
Calgary, AB

REGISTRAR & TRANSFER AGENT

Valiant Trust Company
Calgary, AB

STOCK EXCHANGE LISTING

TSX
Trading Symbol "TBE"

TWIN BUTTE
ENERGY LTD.