TWIN BUTTE ENERGY LTD.

FIRST QUARTER 2013

HIGHLIGHTS

	Three months ended March 31		
	2013	2012	% Change
FINANCIAL *($000's, except per share amounts)*			
Petroleum and natural gas sales	**71,764**	72,497	-1%
Funds flow (1)	**32,423**	26,400	23%
Per share basic	**0.13**	0.14	-7%
Per share diluted	**0.13**	0.14	-7%
Net income (loss)	**(29,633)**	14,983	-298%
Per share basic	**(0.12)**	0.08	-250%
Per share diluted	**(0.12)**	0.08	-250%
Dividends declared	**11,980**	8,624	39%
Dividends declared, Post DRIP	**10,727**	8,624	24%
Capital expenditures (2)	**19,625**	8,058	144%
Corporate acquisitions (2)	**–**	203,000	-100%
Net debt (3)	**200,542**	126,467	59%
OPERATING			
Average daily production			
Crude oil (bbl per day)	**14,673**	10,187	44%
Natural gas (Mcf per day)	**13,907**	16,139	-14%
Natural gas liquids (bbl per day)	**263**	351	-25%
Barrels of oil equivalent (boe per day, 6:1)	**17,254**	13,228	30%
% Oil and NGLs	**87%**	80%	9%
Average sales price			
Crude oil ($ per bbl)	**49.62**	86.57	-43%
Natural gas ($ per Mcf)	**3.50**	2.34	50%
Natural gas liquids ($ per bbl)	**78.01**	90.01	-13%
Barrels of oil equivalent ($ per boe, 6:1)	**46.21**	60.23	-23%
Operating netback ($ per boe) (4)			
Petroleum and natural gas sales	**46.21**	60.23	-23%
Cash (loss) gain on derivative instruments	**11.26**	2.10	436%
Royalties	**(9.14)**	(14.52)	37%
Operating expenses	**(21.88)**	(18.62)	-18%
Transportation expenses	**(2.33)**	(2.48)	6%
Operating netback	**24.12**	26.71	-10%
Wells drilled			
Gross	**28.0**	32.0	-13%
Net	**28.0**	21.7	29%
Success (%)	**89**	100	-11%
Common Shares			
Shares outstanding, end of period	**249,797,912**	191,682,653	30%
Weighted average shares outstanding – diluted	**250,435,239**	186,404,231	34%

(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) 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 FIRST QUARTER 2013 ARE AS FOLLOWS:

- Continued demonstration of a disciplined capital program, providing our sustainable dividend paying model with a payout ratio of 97 percent and a total payout ratio net of the DRIP of 94 percent in the first quarter 2013. This was accomplished during a challenging commodity and operational environment for Canadian heavy oil producers. Since implementation of the Company's dividend in January 2012, $0.23 per share in dividends have been paid as at the end of March.
- Recorded quarterly production of 17,254 boe per day, an increase of 30 percent over the same period of 2012.
- Generated quarterly funds flow of $32.4 million, a 23 percent increase over the same period of 2012.
- Executed an organic capital program of $19.6 million which included the drilling of 28 gross (28 net) wells at an 89 percent success rate. The Company successfully sold $4.0 million in non-core assets in the quarter. A further $3.2 million of noncore assets have been sold in the second quarter of 2013 to date.
- Maintained a solid balance sheet with net debt at $200.5 million relative to the existing credit facility of $280 million.

CORPORATE

The first quarter of 2013 was dominated by the dramatic widening of the differential between benchmark pricing of WTI (West Texas Intermediate) and the Canada heavy oil benchmark WCS (Western Canadian Select) from the historical average differential levels of under $20.00 in the fourth quarter of 2012. The differentials hit record levels in February of over $35.00 but have fortunately contracted and are forecasted to average about $19.00 in the second quarter. The first quarter differential was $31.96 per bbl versus the fourth quarter average of $18.69 per bbl. These all-time high oil differentials combined with extreme weather-related operating conditions made early 2013 a most challenging environment for virtually all Western Canadian heavy oil producers. In addition the Company experienced abnormally high blending costs of $15.66 in the first quarter as compared to average $10-11 costs which further reduced the wellhead price received as a result of above average condensate costs. Even with these financial and operational challenges Twin Butte executed an extremely disciplined capital plan, managing to underspend cash flow including dividends paid by approximately $2.0 million leading to a total payout ratio for the quarter of 94 percent. It is this constant focus on dividend sustainability and balance sheet management which should provide investors with great comfort that Twin Butte is being managed for the long term sustainability of its dividend and asset base.

FINANCIAL

Consistent with the Company's increasing production volumes and liquids weighting, first quarter 2013 funds flow from operations increased by 23 percent when compared to the same period of 2012 reaching $32.4 million. This level of funds flow, although significantly impacted by reduced heavy oil pricing, internally funded $12 million of dividend payments and a net capital program of $19.6 million leading to a total payout ratio of 94 percent.

Although hampered by challenging weather related field conditions, the sale of 80 boe per day of non-core production, and the previously announced reduction of approximately 800 bbls per day of production at Primate, the Company exceeded its previously reported guidance of 17,100 boe per day, with first quarter production averaging 17,254 boe per day. With current production capability of just over 17,600 boe per day, Twin Butte remains on track to achieve its forecasted 2013 production average of 17,400 boe per day.

The Company's first quarter capital plan of $19.6 million was funded by internal funds flow and included the disposition of $4.0 million of noncore assets. These divested assets were predominantly undeveloped land in West Central Alberta and B.C., but had associated production of approximately 80 boe per day. The Company recently closed the additional disposition of 50 bbls per day of non-core assets in British Columbia for $3.2 million.

Operating costs in the first quarter increased to just under $22.00 per boe mainly as a result of unseasonable weather conditions which resulted in higher than normal workover expenses, snow clearing and propane costs. The Company expects to see operating costs fall back below $20.00 per boe for the balance of the year.

The Company's balance sheet remains very strong with end of first quarter net debt of $200.5 million, which represented just over 1.5 times first quarter annualized cash flow, and was well within with our existing credit facility of $280 million. It is anticipated that net debt will remain fairly constant for the remainder of 2013, and that with improved heavy oil pricing for the remainder of 2013 quarterly cash flow will increase, bringing the Company's run rate debt to cash flow to our long term goal of less than 1.5 times. It is anticipated the Company's current credit facility will be renewed without any changes during the second quarter of 2013.

As noted earlier, the recent contraction in oil price differentials in combination with relatively strong WTI pricing for the remainder of 2013, gives Twin Butte confidence in its 2013 cash flow forecast of $130 million. Even with ongoing potential volatility in commodity pricing, our hedging program has and will continue to give good downside price protection. Currently the Company has approximately 59 percent of its heavy oil volumes for 2013 hedged at an average WCS price of $75.50, and an additional 17 percent of oil volumes hedged at an average WTI price of $97.00. On the natural gas side Twin Butte has approximately 65 percent of expected 2013 volumes hedged at a price of $4.50/gj. At the current annual dividend rate of $0.192 per share this cash flow forecast suggests a sustainable total (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 the first quarter of 2013, Twin Butte drilled 28 gross (28 net) wells with an 89 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. The Company's drilling focus continues to be within the Company's core heavy oil fairway, and it is anticipated one hundred percent of Twin Butte's 2013 capital will continue to be spent in this area.

As part of it's ongoing effort to maintain and improve the Company's capital efficiencies, Twin Butte has recently expanded it's horizontal drilling plans for 2013. The Company now anticipates upward of 30 horizontal wells will be drilled in 2013, a trend that Twin Butte sees continuing in its heavy oil fairway. Although the initial focus is on reducing well costs and enhancing initial productivity to maximize capital efficiency, reservoir modeling suggests the horizontals should enhance ultimate recoverable reserves leading to lower overall decline rates and better finding and development costs.

In the first quarter of 2013, Twin Butte has drilled four horizontal test wells in various strategic areas in the greater Lloydminster area. Performance monitoring of the wells continues but early positive results from drilling in the first quarter at Wildmere, has led to the drilling of an additional five wells thus far in the second quarter. It is anticipated post breakup, drilling will resume at Wildmere.

Frog Lake, the Company's most active area for the last number of years, has been operationally quiet for the last two quarters. With numerous newly acquired properties and undeveloped lands added to our portfolio in 2012, the Company's focus has been on derisking and identifying long term upside potential on these assets. Operational momentum has again commenced at Frog Lake where horizontal drilling activity is currently ongoing and will accelerate late in the third quarter focused on exploitation of the Mannville formation. In late 2011, the Company drilled a horizontal Mannville well which after 16 months of production has proved the economic viability of a larger scale program.

At Primate in Western Saskatchewan, the Company's second most active area in 2012, Twin Butte encountered some reservoir performance issues in late December and early January that reduced property production by approximately 800 bbls per day. Since the announcement in late January the property has stabilized and is on a normal decline profile. Current production on the property is approximately 2,400 bbls per day and has been very consistent over the past number of months. Twin Butte will continue to monitor and optimize the property's production to ensure continued long term reserve and cash flow optimization.

In addition the Company was very active in Western Saskatchewan, drilling on the recently 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 new lands to continue with the derisking of the lands and the long term enhancement of the Company's drilling inventory.

To optimize the Company's heavy oil pricing, approximately 15 percent of its heavy barrels are being transported via rail car. This marketing operation has generated an increase of approximately $6.00 to $8.00 per barrel net to the Company in the first quarter. During 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 attract investor interest over the long term. We remain committed to continually enhance the Company's asset quality through organic growth and strategic acquisitions.

The Company remains on track to meet its previously reported operating and financial guidance of $130 million in cash flow and 17,400 boe per day of average production. The Company's level of capital expenditures, which are currently forecast to be $85 million net, will be monitored and potentially increased should actual cash flow less dividends increase.

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 some of the top percentile return on investment, 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.

ABOUT TWIN BUTTE

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

(signed)

Jim Saunders
President and C.E.O.

May 14, 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.

Analogous Information

In this report, Twin Butte has provided certain information on the production profile and estimates of decline rates on its Primate property which is "analogous information" as defined by applicable securities laws. This analogous information is derived from publicly available information sources which the Company believes are predominantly independent in nature. Some of this data may not have been prepared by qualified reserves evaluators or auditors and the preparation of any estimates may not be in strict accordance with Canadian Oil & Gas Evaluation Handbook. Regardless, estimates by engineering and geo-technical practitioners may vary and the differences may be significant. Twin Butte believes that the provision of this analogous information is relevant to Twin Butte's activities and forecasting, given its property ownership in the area; however, readers are cautioned that there is no certainty that the forecasts provided herein based on analogous information will be accurate.

Future Oriented Financial Information

This report, in particular the information in respect of anticipated cash flows, may contain Future Oriented Financial Information ("FOFI") within the meaning of applicable securities laws. The FOFI has been prepared by management of the Company to provide an outlook of the Company's activities and results and may not be appropriate for other purposes. The FOFI has been prepared based on a number of assumptions including the assumptions discussed under the heading "Forward-Looking Statements" and assumptions with respect to production rates and commodity prices. The actual results of operations of the Company and the resulting financial results may vary from the amounts set forth herein, and such variation may be material. The Company and its management believe that the FOFI has been prepared on a reasonable basis, reflecting management's best estimates and judgments.

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 May 14, 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 interim financial statements of the Company for the three months ended March 31, 2013 and the audited financial statements and MD&A for the twelve months ended December 31, 2012. 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 six thousand cubic feet of gas to one barrel of oil.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to our future outlook and anticipated events or results and may include statements regarding the future financial position, business strategy, budgets, projected costs, capital expenditures, financial results, taxes and plans and objectives of or involving Twin Butte. Particularly, statements regarding our future operating results and economic performance are forward-looking statements. In some cases, forward-looking information can be identified by terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or other similar expressions concerning matters that are not historical facts.

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

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

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

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

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

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

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

PETROLEUM AND NATURAL GAS SALES

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

	Three months ended March 31	
	2013	2012
Sales *($000's)*		
Heavy oil	**$ 60,641**	$ 59,752
Light & Medium oil	**4,892**	6,441
Natural gas	**4,386**	3,432
Natural gas liquids	**1,845**	2,872
Total petroleum and natural gas sales	**$ 71,764**	$ 72,497
Average Daily Production		
Heavy oil (bbl/day)	**13,890**	9,370
Light & medium oil (bbl/day)	**783**	818
Natural gas (Mcf/day)	**13,907**	16,139
Natural gas liquids (bbl/day)	**263**	351
Total (boe/d)	**17,254**	13,228
% oil and liquids production	**87%**	80%
Average Twin Butte Realized Commodity Prices (1)		
Heavy oil ($ per bbl)	**48.51**	70.08
Light & Medium oil ($ per bbl)	**69.44**	86.57
Natural gas ($ per Mcf)	**3.50**	2.34
Natural gas liquids ($ per bbl)	**78.01**	90.01
Barrels of oil equivalent ($ per boe, 6:1)	**46.21**	60.23

(1) The average selling prices reported are before realized derivative instrument gains/losses and transportation charges.

Benchmark Pricing		
WTI crude oil (US$ per bbl)	**94.37**	102.93
Edmonton crude oil (Cdn$ per bbl)	**88.65**	92.70
WCS crude oil (Cdn$ per bbl)	**64.17**	82.72
AECO natural gas (Cdn$ per Mcf) (2)	**3.03**	2.04
Exchange rate (US$/Cdn$)	**1.01**	1.00

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

Sales for the three months ended March 31, 2013 were $71.8 million, as compared to $72.5 million for the three months ended March 31, 2012, representing a decrease of $0.7 million or 1%. Although production increased from the prior period quarter, the average realized commodity price declined, resulting in reduced sales. Excluding the impact of derivative instruments, the average realized commodity price decreased from $60.23 in the first quarter of 2012 to $46.21 during the first quarter of 2013. This 23% reduction in realized price is due to a weak Canadian heavy oil price environment, marked by widening WCS crude oil differentials. Compared to the prior year quarter, the WTI crude oil benchmark decreased 8%, while the WCS benchmark decreased 22%. Twin Butte also saw increased blending costs as a result of higher condensate pricing during the first quarter of 2013.

Production increased from 13,228 boe/d in the three months ended March 31, 2012 to 17,254 boe/d for the three months ended March 31, 2013. This increase of 4,026 boe/d is due the Company's drilling program, as well as corporate and property acquisitions in 2012. Production gains were partially offset by reservoir performance issues at Primate, as previously reported in January and snow-related shut-ins near the end of March 2013. 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. Natural gas sales currently account for 13% of production volumes, and only 6% of sales revenue.

ROYALTIES

	Three months ended March 31	
($000's except per boe amounts)	**2013**	2012
Heavy Oil	**$ 12,243**	$ 14,507
Light & Medium oil	**1,167**	2,381
Natural Gas	**114**	(403)
NGL's	**664**	989
Total Royalties	**$ 14,188**	$ 17,474
Total royalties per boe	**9.14**	14.52
% of P&NG Sales	**20%**	24%

Royalties for the three months ended March 31, 2013 were $14.2 million, as compared to $17.5 million for the three months ended March 31, 2012. As a percentage of sales, the average royalty rate for the first quarter of 2013 decreased to 20% compared to 24% in the first quarter of 2012, with oil averaging 20% and gas averaging 2%. Despite the Company's oil weighting increasing 7% from the prior year, this rate has decreased due to a reduction in the Government of Alberta crude oil royalty calculation input prices for heavy oil, which were set at a lower rate and resulted in lower royalties on heavy oil. Gas royalty rates are low during the quarter due to reduced gas production.

OPERATING & TRANSPORTATION EXPENSE

	Three months ended March 31	
($000's except per boe amounts)	**2013**	2012
Operating expense	**$ 33,974**	$ 22,409
Transportation	**3,626**	2,987
Total operating & transportation expense	**$ 37,600**	$ 25,396
Operating expense per boe	**$ 21.88**	$ 18.62
Transportation expense per boe	**2.33**	2.48
Total per boe	**$ 24.21**	$ 21.10

Operating expenses were $34.0 million or $21.88 per boe for the quarter ended March 31, 2013 as compared to $22.4 million or $18.62 per boe for the three months ended March 31, 2012. Increases in the quarter relate to cold-weather workover activity at various properties in January 2013. Winter conditions were also a factor in March, as record snowfall in the Lloydminster area increased snow removal costs. In addition to seasonal fluctuations, the Company is facing overall cost pressure due to the increasing cost of propane and an oil-based well mix that required increased workovers. In comparison to Q1 2012, increasing costs are partly attributable to the higher heavy oil concentration, and result in higher per boe costs. As a result of the higher operating costs mentioned above and slightly lower volumes, the Company has seen operating costs on a per boe basis increase this quarter compared to the fourth quarter of 2012.

Transportation expenses for the three months ended March 31, 2013 were $3.6 million or $2.33 per boe compared to $3.0 million or $2.48 per boe in the prior year comparative quarter. On an absolute basis, the increase in transportation is in line with increasing production. On a per boe basis, transportation has decreased as trucking charges are reduced by further cleaning the oil on-site.

On a combined basis for the first quarter, the Company has higher operating and transportation costs of $24.21 per boe as compared to $21.10 per boe for the comparable period of 2012. This 15% increase is due to the increase in operating expenses. The Company continues to target all in operating and transportation costs of $22.50 per boe for the balance of 2013, with the expectation of cost pressure in the second quarter of 2013 due to water run-off issues from the snow and increased road bans in Saskatchewan.

GENERAL AND ADMINISTRATIVE ("G&A") EXPENSES

	Three months ended March 31	
($000's except per boe amounts)	**2013**	2012
G&A expense	**$ 5,033**	$ 3,918
Recoveries	**(728)**	(798)
Capitalized G&A expense	**(874)**	(678)
Total net G&A expense	**$ 3,431**	$ 2,442
Total net G&A expense per boe	**2.21**	2.03
Emerge, Avalon & Waseca transaction expense	**55**	1,960
Transaction expense per boe	**0.03**	1.63

General and administrative expenses, net of recoveries and capitalized G&A, were $3.4 million or $2.21 per boe for the current quarter as compared to $2.4 million or $2.03 per boe in the prior year comparative quarter. The Company incurred higher costs during the quarter as a result of increased staff levels associated with the Company's increased level of operations and additional recruitment costs. On a per boe basis, G&A increased at a greater rate than production, due to the quarter's production setbacks. The Company continues to expect net G&A for 2013 to stay below $2.00 per boe.

During 2012 the Company incurred transaction costs related to corporate and property acquisitions, specifically advisory, stock exchange, legal and bank fees related to the Emerge corporate acquisition.

SHARE-BASED PAYMENT EXPENSE

	Three months ended March 31	
($000's except per boe amounts)	**2013**	2012
Total	**1,371**	845
Total per boe	**0.88**	0.70

During the three months ended March 31, 2013, the Company expensed $1.4 million in share-based payment expense as compared to $0.8 million in the three month period ended March 31, 2012. The Company granted 1,076,440 share awards, 455,342 performance share awards and nil stock options in the first quarter of 2013 as compared to 1,979,404 share awards in the first quarter of 2012. As this is the second year of the program, costs have increased due to expense related to both current year and prior year grants. Total share awards forfeited due to employee departures were 121,288 in the quarter versus 109,782 awards forfeited in the first quarter last year.

At March 31, 2013, the Company has 3,189,179 restricted share awards, 1,697,978 performance share awards and 895,434 options outstanding.

FINANCE EXPENSE

	Three months ended March 31	
($000's except per boe amounts)	**2013**	2012
Accretion on decommissioning provision	**$ 555**	$ 239
Interest and bank charges	**1,551**	1,356
Total finance expense	**$ 2,106**	$ 1,595
Accretion on decommissioning provision per boe	**$ 0.36**	$ 0.20
Interest and bank charges per boe	**1.00**	1.13
Total finance expense per boe	**$ 1.36**	$ 1.33

For the three months ended March 31, 2013, finance charges were $2.1 million as compared to $1.6 million in the three month period ended March 31, 2012. This increase is due to increased average bank debt for the quarter, which was $186 million compared to $122 million in the prior year quarter.

The effective interest rate for the quarter was 3.3%, compared to 3.5% in 2012, as the Company utilized Bankers Acceptances to reduce the overall effective interest rate. The Company's current interest charge on the operating line is bank prime of 3.0% plus a margin of 1.25% for a total rate of 4.25%. This is an increase over the first quarter of 2013's rate of 4.0%.

DERIVATIVE ACTIVITIES

	Three months ended March 31	
($000's except per boe amounts)	**2013**	2012
Realized gain (loss)	**$ 9,541**	$ 2,531
Cash gain (loss) – Swaptions	**7,943**	–
Unrealized gain (loss)	**(29,707)**	3,880
Gain (loss) on derivatives	**$ (12,223)**	$ 6,411
Realized gain (loss) on derivatives per boe	**$ 6.14**	$ 2.10
Cash gain (loss) on derivatives per boe – Swaptions	**5.12**	–
Unrealized gain (loss) on derivatives per boe	**(19.13)**	3.22
Gain (loss) on derivatives per boe	**$ (7.87)**	$ 5.32

As part of the 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. During the first quarter of 2013, Twin Butte entered into fixed price swaps for both crude oil and natural gas and sold crude oil swaptions.

With 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 the Company limits 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 total cash gain on financial derivatives in the amount of $17.5 million ($11.26 per boe) for the three month period ended March 31, 2013, comprised of $9.5 million ($6.14 per boe) in gains from fixed price swaps and $7.9 million ($5.12 per boe) for crude oil swaptions sold. This compares to a realized gain of $2.5 million ($2.10 per boe) for the prior quarter comparative period. The fixed price swap realized gain in Q1 2013 was split between gains of $1.0 million for natural gas and $8.6 million for crude oil sales price derivatives, and a foreign exchange loss of $0.1 million during the quarter.

As at March 31, 2013, the Company has a net unrealized financial derivative liability in the amount of $10.4 million. The Company has recognized an unrealized loss on financial derivatives in the amount of $29.7 million for the three month period ended March 31, 2013 as compared to $3.8 million unrealized gain for the prior year comparative period. Unrealized losses at March 31, 2013 reflect strong WTI pricing and a narrowing of the WCS differential at the end of the quarter in comparison to December 31, 2012.

The following is a summary of derivatives as at March 31, 2013 and their related fair market values (unrealized gain (loss) positions):

Crude Oil Sales Price Derivatives

Daily barrel (bbl) quantity	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			$ (2,208)
1,000	January 1, 2013 to June 30, 2013	$96.32			(228)
2,000	February 1, 2013 to March 31, 2013	$93.25			(124)
2,000	April 1, 2013 to December 31, 2013	$97.00			(1,008)
4,500	April 1, 2013 to June 30, 2013	$97.81			(571)
3,500	July 1, 2013 to September 30, 2013	$96.67			(769)
1,000	July 1, 2013 to December 31, 2013	$96.20			(624)
2,000	October 1, 2013 to December 31, 2013	$94.55			(605)
2,000	January 1, 2014 to December 31, 2014	$95.00			(237)
4,000	January 1, 2014 to June 30, 2014	$96.45			220
1,000	July 1, 2014 to September 30, 2014	$96.00			108
4,500	January 1, 2013 to December 31, 2013			(20.57)	914
1,000	January 1, 2013 to June 30, 2013			(19.65)	114
5,000	May 1, 2013 to June 30, 2013			(21.29)	(1,682)
2,000	July 1, 2013 to December 31, 2013			(22.38)	(257)
4,500	July 1, 2013 to September 30, 2013			(21.78)	(152)
2,000	January 1, 2014 to June 30, 2014			(19.55)	1,022
2,000	July 1, 2014 to December 31, 2014			(21.85)	(210)
1,000	July 1, 2014 to September 30, 2014			(22.00)	(93)
3,300	January 1, 2013 to December 31, 2013		$108.03		(704)
1,300	January 1, 2014 to December 31, 2014		$110.00		(843)
Crude oil fair value position					$ (7,937)

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

(2) WCS represents the posting price of Western Canadian Select oil

Crude Oil Swaption Derivative Contracts

Daily barrel (boe) quantity	Option contract expiry	Term of underlying WTI (1) fixed call	Fixed call price per bbl WTI (1)	Fair market value *$000's*
1,000	June 28, 2013	July 1, 2013 to December 31, 2013	$US 95.00	$ (715)
3,000	June 30, 2013	January 1, 2014 to December 31, 2014	$US 100.00	(930)
2,000	September 30, 2013	January 1, 2014 to December 31, 2014	$US 100.00	(1,322)
1,000	December 31, 2013	January 1, 2014 to December 31, 2014	$US 100.00	(796)
2,000	December 31, 2013	January 1, 2014 to June 30, 2014	$C 100.00	(1,175)
Crude oil swaption fair value position				$ (4,938)

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

Natural Gas Sales Price Derivatives

Daily giga-joule (GJ) quantity	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	$ 2,432
Natural gas fair value position			$ 2,432

GAIN/LOSS ON DISPOSITIONS

During the three months ended March 31, 2013 the Company disposed of minor properties for net cash proceeds of $4.0 million which resulted in a gain of $3.9 million. This compares to dispositions in the first quarter of 2012 with net cash proceeds of $6.3 million and a gain of $3.0 million.

DEPLETION, DEPRECIATION & IMPAIRMENT

	Three months ended March 31	
($000's except per boe amounts)	**2013**	2012
Total	**30,642**	20,419
Total per boe	**19.73**	16.96

For the three month period ended March 31, 2013, depletion and depreciation of capital assets was $30.6 million or $19.73 per boe compared to $20.4 million or $16.96 per boe for the prior year comparative period. On an absolute basis, this increase relates to increased production and an increased cost base for the quarter as compared to the prior year. The rate per boe has increased from the prior period quarter due to acquisitions in 2012 where the cost per boe was above the Company's historical cost base. This rate is, however, consistent with the fourth quarter of 2012.

No indicators of impairment for Property, Plant & Equipment (PP&E) or Exploration & Evaluation (E&E) assets were noted for the three months ended March 31, 2013.

INCOME TAXES

Deferred tax expense amounted to a $9.9 million recovery for the three month period ended March 31, 2013 compared to $2.8 million of expense for the three month period ended March 31, 2012. This recovery is a result of losses on unrealized derivative contracts during the quarter, which result in a deferred tax asset.

The Company has existing tax losses and pools of approximately $555 million at March 31, 2013. 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 March 31	
($000's except per share amounts)	**2013**	2012
Net Income (loss)	**(29,633)**	14,983
Net Income (loss) per share	**(0.12)**	0.08

Net and comprehensive income for the three month period ended March 31, 2013 was a net loss of $29.6 million, compared to net income of $15.0 million in the prior year comparative period. This decrease was due to a significant unrealized mark-to-market hedging loss and reduced sales, which decreased net income.

QUARTERLY FINANCIAL SUMMARY

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

($000's, except per share amounts)	**Q1 2013**	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011
Average production (boe/d)	**17,254**	17,531	13,752	14,193	13,228	7,695	7,599	7,556
Petroleum and natural gas sales	**71,764**	88,673	73,386	70,173	72,497	41,216	34,885	38,748
Operating netback (per boe) (1)	**24.12**	26.27	33.80	28.95	26.71	26.72	23.1	29.52
Funds flow from operations (2)	**32,423**	37,754	38,119	33,762	26,400	16,686	14,042	17,686
Per share basic	**0.13**	0.16	0.19	0.18	0.14	0.12	0.10	0.13
Per share diluted	**0.13**	0.16	0.19	0.17	0.14	0.12	0.10	0.13
Net income (loss)	**(29,633)**	(5,381)	(7,411)	29,529	14,983	(37,047)	7,522	12,765
Per share basic	**(0.12)**	(0.02)	(0.04)	0.15	0.08	(0.27)	0.05	0.10
Per share diluted	**(0.12)**	(0.02)	(0.04)	0.15	0.08	(0.27)	0.06	0.09
Corporate acquisitions (3)	**–**	134,972	88,369	–	203,000	–	–	2,388
Capital expenditures (4)	**19,625**	37,307	17,183	23,576	8,058	9,842	22,071	17,257
Total assets	**815,040**	845,261	690,240	588,893	583,439	340,664	370,472	348,790
Net debt excluding financial derivatives	**200,542**	201,703	146,843	124,459	126,466	77,169	83,857	75,960

(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 the Company's ability to generate the cash flow necessary to fund dividends and capital investment and ultimately, satisfy corporate strategy.

	Three months ended March 31	
($000's except per share amounts)	**2013**	2012
Cash flow from operating activities	**$ 28,569**	$ 26,230
Expenditures on decommissioning liability	**537**	43
Change in non-cash working capital	**3,317**	127
Funds flow (1)	**$ 32,423**	$ 26,400
Funds flow per share	**0.13**	0.14
Dividends declared	**(11,980)**	(8,624)
Capital Expenditures (2)	**(19,625)**	(8,058)
Payout ratio (3)	**97%**	63%
Reinvested dividends (DRIP)	**1,253**	–
Total payout ratio (net of DRIP) (3)	**94%**	63%

(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 March 31, 2013, the total payout ratio was 94%.

Funds flow from operations for the three month period ended March 31, 2013 were $32.4 million, an increase from the first quarter 2012 funds flow of $26.4 million, due to acquisitions completed in 2012. This represents $0.13 per diluted share compared to $0.14 per diluted share for the same quarter last year and $0.16 in the fourth quarter 2012. The decrease in funds flow per share from the prior quarter is due to the Company's production setbacks in January 2013, a weak heavy oil price environment, and increased operating expense.

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

($ per boe)	**Q1 2013**	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011
Petroleum and natural gas sales	**$ 46.21**	$ 54.98	$ 58.01	$ 54.33	$ 60.23	$ 58.22	$ 49.90	$ 56.36
Royalties	**(9.14)**	(9.83)	(11.40)	(12.84)	(14.52)	(11.42)	(11.30)	(9.98)
Cash gain (loss) on financial derivatives	**11.26**	4.83	8.02	6.91	2.10	(1.16)	2.65	(0.24)
Operating expense	**(21.88)**	(19.73)	(18.38)	(17.19)	(18.62)	(16.96)	(16.25)	(14.99)
Transportation expense	**(2.33)**	(2.82)	(2.45)	(2.26)	(2.48)	(1.96)	(1.90)	(1.63)
Operating netback (1)	**$ 24.12**	$ 27.43	$ 33.80	$ 28.95	$ 26.71	$ 26.72	$ 23.10	$ 29.52
General and administrative expense	**(2.21)**	(2.07)	(2.22)	(1.57)	(2.03)	(2.18)	(2.04)	(2.53)
Transaction costs	**(0.03)**	(0.76)	(0.62)	(0.20)	(1.63)	–	–	–
Interest and bank charges	**(1.00)**	(1.18)	(1.00)	(1.05)	(1.13)	(0.97)	(0.98)	(1.26)
Funds flow from operations (2)	**$ 20.88**	$ 23.42	$ 29.96	$ 26.13	$ 21.92	$ 23.57	$ 20.08	$ 25.73

(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 March 31	
($000's)	**2013**	2012
Land acquisition	**$ 10**	$ 17
Geological and geophysical	**501**	148
Drilling and completions	**16,515**	9,869
Equipping and facilities	**5,755**	2,890
Other	**874**	1,462
Development capital	**$ 23,655**	$ 14,386
Property dispositions – Cash received	**(4,030)**	(6,328)
Capital expenditures (1)	**$ 19,625**	$ 8,058
Net other additions to PP&E (2)	**11,305**	8,472
Corporate acquisition additions to PP&E	**–**	203,000
Total net additions to PP&E	**$ 30,930**	$ 219,530

(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 and exploration 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, reclassification of E&E assets, and corresponding changes in PP&E due to changes in the decommissioning liability.

During the first quarter of 2013, the Company invested $23.7 million on development capital. The Company's development capital expenditures for the quarter were focused on heavy oil areas, with successful drilling of 4 (4.0 net) oil wells at Tangleflags; 3 (3.0 net) wells at each of Primate, Wildmere and Rush Lake; and 12 (12.0 net) wells at various other properties. Of the 28 wells drilled this quarter, 3 were Dry and Abandoned (D&A). The Company completed property dispositions for cash of $4.0 million during the quarter and did not complete any property or corporate acquisitions. Corporate acquisitions in the first quarter of 2012 included Emerge, which was purchased for common shares with a market value of $134.3 million and a working capital liability of $60.0 million.

Drilling Results

Three months ended March 31	2013		2012	
	Gross	**Net**	Gross	Net
Crude oil	**25**	**25**	32	21.7
Natural gas	**–**	**–**	–	–
Dry and abandoned	**3**	**3**	–	–
Total	**28**	**28**	32	21.7
Success rate (%)		**89%**		100%

Undeveloped Land

The Company's undeveloped land holdings significantly increased from the first quarter of 2012, mainly through acquisitions. In the first quarter of 2013, conversions from drilling, dispositions and expiries reduced the undeveloped land balance.

As at March 31	2013	2012
Gross Acres	**887,634**	305,139
Net Acres	**338,555**	219,368

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 $91 million on the Company's dedicated credit facility of $280 million.

As at March 31, 2013 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 an annual revolving basis. The annual credit facility review is currently underway and the expiry of the current annual revolving period was extended until May 30, 2013 from April 30, 2013 for administrative reasons. This facility is extendible at the request of the Company for a further 364 days, subject to approval of the lenders and is repayable one year after the expiry of the revolving period if not extended. 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 is not in default in relation to this agreement and was not required to make any repayments.

At March 31, 2013 the Company had $189 million drawn on its credit facility and total net debt of $201 million. The Company confirms there are no off-balance sheet financing arrangements.

SHARE CAPITAL

In the first quarter of 2013, 819,735 vested share awards were exercised, resulting in the issuance of 1,896,505 shares.

As of May 14, 2013 the Company has 250,298,505 Common Shares, 895,434 stock options and 4,557,620 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 $96.0 million (December 31, 2012 – $89.0 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 March 31, 2013 *($000's)*	Less than one year	One to three years	Three to five years	Total
Derivative liability	$ 14,189	$ 4,014	$ –	$ 18,203
Bank indebtedness – principal (1)	–	188,636	–	188,636
Bank indebtedness – interest	7,545	7,545	–	15,090
Other (2)	1,079	3,534	1,395	6,008
	$ 22,813	$ 203,729	$ 1,395	$ 227,937

(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 May 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 March 31, 2013, the Company incurred costs totaling $2.2 million ($2.3 million – March 31, 2012) 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 and were recorded at the exchange amount. As at March 31, 2013, the Company had $1.5 million ($4.3 million – December 31, 2012) included in accounts payable and accrued liabilities related to these transactions.

SUBSEQUENT EVENTS

Crude Oil Sales Price Derivative Contracts

Subsequent to March 31, 2013 the Company entered into a crude oil price derivative. The average barrels and prices for this derivative are as follows:

Daily barrel (boe) quantity	Term of contract	Fixed $ WCS vs. boe (WTI)
1,000	January 1, 2014 to December 31, 2014	($22.00)

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 for the year ended December 31, 2012 and specifically include in the following annual 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.

The Company's significant areas of estimation uncertainty have not changed during the period. In accordance with new standards adopted, the Company has provided additional estimation and assumption disclosure regarding the valuation of financial instruments in Note 4 to the interim financial statements for the three months ended March 31, 2013.

Judgments

In the process of applying the Company's accounting policies, management makes judgments, apart from those involving estimates, which may have a significant effect on the amounts recognized in the financial statements. Management's areas of judgment have not significantly changed from the annual financial statements for the year ended December 31, 2012.

New standards and interpretations not yet adopted

There were no new or amended standards issued during the three months ended March 31, 2013 that are applicable to the Company in future periods. A description of standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the annual Financial Statements for the year ended December 31, 2012.

The accounting policies followed in these condensed consolidated interim financial statements are consistent with those of the previous financial year, except as described below.

Changes in accounting policies

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

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. Adoption did not result in any change in consolidation status, as the Company does not have subsidiaries or investees.

iii) *IFRS 11 Joint Arrangements* requires a company 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 company will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. IFRS 11 supersedes IAS 31 Interests in Joint Ventures, and SIC-13 Jointly Controlled Entities—Non-monetary Contributions by Venturers. The Company has analyzed its joint arrangements and concluded that the adoption of IFRS 11 did not result in any changes in the accounting for its joint arrangements.

iiv) 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. The Company assessed its interests in other entities on January 1, 2013 and determined that no additional disclosure was necessary.

iv) 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 Company adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013. The Company has complied with the new disclosure requirements of IFRS 13 in Note 4 – Financial Instruments, as applicable to interim financial statements in accordance with IAS 34.

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 March 31, 2013 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 March 31, 2013, 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 March 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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

BALANCE SHEET

(unaudited – Cdn$ thousands)	Note	March 31, 2013	December 31, 2012
ASSETS			
Current Assets			
Accounts receivable		$ 40,488	$ 42,497
Deposits and prepaid expenses		5,741	4,233
Derivative assets	4	6,988	32,022
		53,217	78,752
Non-current assets			
Derivative assets	4	772	–
Exploration and evaluation	5	59,988	65,779
Property and equipment	6	669,661	669,328
Goodwill		31,402	31,402
		$ 815,040	$ 845,261
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities		$ 54,138	$ 60,822
Dividend payable		3,997	3,350
Derivative liabilities	4	14,189	2,821
		72,324	66,993
Non-current liabilities			
Derivative liabilities	4	4,014	1,994
Bank indebtedness	7	188,636	184,261
Deferred taxes		21,591	31,521
Decommissioning provision	8	95,994	88,991
		382,559	373,760
Shareholders' Equity			
Share capital	9	526,625	523,226
Contributed surplus		7,441	7,624
Deficit		(101,585)	(59,349)
		432,481	471,501
		$ 815,040	$ 845,261
Commitments and contingencies (note 14)			

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

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

		Three months ended March 31,	
(unaudited – Cdn$ thousands except per share amounts)	*Note*	**2013**	2012
Petroleum and natural gas sales		**$ 71,764**	$ 72,497
Royalties		**(14,188)**	(17,474)
Revenues		**$ 57,576**	$ 55,023
Expenses			
Operating		**33,974**	22,409
Transportation		**3,626**	2,987
General and administrative	*10*	**3,431**	2,442
Transaction costs		**55**	1,960
Share-based payments	*9*	**1,371**	845
Finance expense	*11*	**2,106**	1,595
Loss (gain) on derivatives	*4*	**20,166**	(6,411)
Exploration and evaluation expense	*5*	**5,635**	957
Gain on disposition of property and equipment	*6*	**(659)**	(2,997)
Gain on disposition of exploration asset	*5*	**(3,208)**	–
Negative goodwill		**–**	(6,991)
Depletion and depreciation	*6*	**30,642**	20,419
		97,139	37,215
Income (loss) before income taxes		**(39,563)**	17,808
Deferred tax expense (recovery)		**(9,930)**	2,825
Net Income (Loss) and Comprehensive Income (Loss)		**$ (29,633)**	$ 14,983
Net Income (Loss) per share $			
Basic	*9*	**(0.12)**	0.08
Diluted	*9*	**(0.12)**	0.08

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

STATEMENT OF CASH FLOWS

(unaudited – Cdn$ thousands)	Note	Three months ended March 31, 2013	2012
Cash provided by (used in):			
OPERATING ACTIVITIES:			
Net income (loss)		**$ (29,633)**	$ 14,983
Adjustments for items not involving cash:			
Depletion and depreciation	6	**30,642**	20,419
Deferred tax expense (recovery)		**(9,930)**	2,825
Unrealized (gain) loss on derivatives	4	**29,707**	(3,880)
Finance expenses	11	**2,106**	1,595
Interest paid	11	**(1,551)**	(1,356)
Share-based payments	9	**1,371**	845
Exploration and evaluation expenses	5	**5,635**	957
Gain on disposition of exploration asset	5	**(3,208)**	–
Gain on disposition of property and equipment	6	**(659)**	(2,997)
Negative goodwill		**–**	(6,991)
Cash premiums on derivatives	4	**7,943**	–
Expenditures on decommissioning provision	8	**(537)**	(43)
Changes in non-cash working capital	12	**(3,317)**	(127)
		28,569	26,230
FINANCING ACTIVITIES			
Increase (decrease) in bank indebtedness	7	**4,375**	(20,259)
Issuance of share capital on exercise of stock options	9	**–**	99
Dividends paid		**(10,453)**	(5,749)
		(6,078)	(25,909)
INVESTING ACTIVITIES			
Expenditures on property and equipment		**(23,204)**	(13,747)
Expenditures on exploration and evaluation assets		**(451)**	(272)
Proceeds on disposition of property and equipment	6	**560**	5,913
Proceeds on disposition of exploration and evaluation assets	5	**3,470**	415
Changes in non-cash working capital	12	**(2,866)**	7,370
		(22,491)	(321)
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

(unaudited – Cdn$ thousands)	Note	Three months ended March 31, 2013	2012
Share capital			
Balance, beginning of period		**$ 523,226**	$ 227,520
Common shares issued for Emerge acquisition		**–**	134,264
Common shares issued pursuant to the DRIP	*9*	**1,503**	–
Common shares issued under employee and option plan	*9*	**1,896**	3,346
Balance, end of period		**$ 526,625**	$ 365,130
Contributed surplus			
Balance, beginning of period		**$ 7,624**	$ 7,506
Share-based payments for awards exercised		**(1,896)**	(2,367)
Share-based payments for awards granted		**1,713**	–
Balance, end of period		**$ 7,441**	$ 5,139
Deficit			
Balance, beginning of period		**$ (59,349)**	$ (53,630)
Dividends		**(12,603)**	$ (8,624)
Net income (loss) and comprehensive income (loss)		**(29,633)**	14,983
Balance, end of period		**$ (101,585)**	$ (47,271)

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

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the periods ended March 31, 2013 and 2012 (unaudited)

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

NOTE 1. BUSINESS AND STRUCTURE OF TWIN BUTTE

Twin Butte Energy Ltd. ("Twin Butte" or "the Company") is a 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 condensed interim financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The Company has consistently applied the same accounting policies throughout all periods presented in the notes to the audited annual financial statements for the year ended December 31, 2012, except as identified in note 3. Certain disclosures included in the notes to the audited annual financial statements have been condensed in the following note disclosures or have been disclosed on an annual basis only. The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2012.

These financial statements have been prepared on the historical cost basis, except as disclosed in the significant accounting policies in Note 3 of the annual financial statements for the year ended December 31, 2012. 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 May 14, 2013.

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

There were no new or amended standards issued during the three months ended March 31, 2013 that are applicable to the Company in future periods. A description of standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the annual Financial Statements for the year ended December 31, 2012.

The accounting policies followed in these condensed consolidated interim financial statements are consistent with those of the previous financial year, except as described below.

Changes in accounting policies

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

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. Adoption did not result in any change in consolidation status, as the Company does not have subsidiaries or investees.

iii) *IFRS 11 Joint Arrangements* requires a company 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 company will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. IFRS 11 supersedes IAS 31 Interests in Joint Ventures, and SIC-13 Jointly Controlled Entities—Non-monetary Contributions by Venturers. The Company has analyzed its joint arrangements and concluded that the adoption of IFRS 11 did not result in any changes in the accounting for its joint arrangements.

iiv) *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. The Company assessed its interests in other entities on January 1, 2013 and determined that no additional disclosure was necessary.

iv) *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 Company adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013. The Company has complied with the new disclosure requirements of IFRS 13 in Note 4 – Financial Instruments, as applicable to interim financial statements in accordance with IAS 34.

NOTE 4. FINANCIAL INSTRUMENTS

Financial instruments of the Company include accounts receivable, deposits, accounts payable and accrued liabilities, bank indebtedness, dividends payable, and derivative assets and liabilities. As at March 31, 2013, there were no 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.

Derivative assets and liabilities are carried at fair value and are measured on a recurring basis. The fair values of derivatives are determined using 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 Company's policy is to recognize transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. During the three months ended March 31, 2013, there were no transfers between levels 1, 2 or 3.

(a) Price and currency risk

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

	Three months ended March 31	
	2013	2012
Realized gain (loss)	**$ 9,541**	$ 2,531
Unrealized gain (loss)	**(29,707)**	3,880
Gain (loss) on derivatives	**$ (20,166)**	$ 6,411

During the three months ended March 31, 2013, the Company also realized $7.9 million of cash premiums received for selling crude oil swaption derivative contracts (March 31, 2012 – $nil). A crude oil swaption contract is an option that allows the holder to exercise and enter into a fixed price crude oil derivative contract.

Derivative Position

As at	**March 31, 2013**	December 31, 2012
Current asset	**$ 6,988**	$ 32,022
Non-current asset	**772**	–
Current liability	**(14,189)**	(2,821)
Non-current liability	**(4,014)**	(1,994)
Net derivative asset (liability) position	**$ (10,443)**	$ 27,207

Derivative Summary

As at	March 31, 2013	December 31, 2012
Crude oil sales price derivatives	**$ (7,937)**	$ 22,915
Crude oil swaption derivatives	**(4,938)**	–
Natural gas sales price derivatives	**2,432**	4,292
Net derivative asset (liability) position	**$ (10,443)**	$ 27,207

Crude Oil Sales Price Derivatives

Daily barrel (bbl) quantity	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			$ (2,208)
1,000	January 1, 2013 to June 30, 2013	$96.32			(228)
2,000	February 1, 2013 to March 31, 2013	$93.25			(124)
2,000	April 1, 2013 to December 31, 2013	$97.00			(1,008)
4,500	April 1, 2013 to June 30, 2013	$97.81			(571)
3,500	July 1, 2013 to September 30, 2013	$96.67			(769)
1,000	July 1, 2013 to December 31, 2013	$96.20			(624)
2,000	October 1, 2013 to December 31, 2013	$94.55			(605)
2,000	January 1, 2014 to December 31, 2014	$95.00			(237)
4,000	January 1, 2014 to June 30, 2014	$96.45			220
1,000	July 1, 2014 to September 30, 2014	$96.00			108
4,500	January 1, 2013 to December 31, 2013			(20.57)	914
1,000	January 1, 2013 to June 30, 2013			(19.65)	114
5,000	May 1, 2013 to June 30, 2013			(21.29)	(1,682)
2,000	July 1, 2013 to December 31, 2013			(22.38)	(257)
4,500	July 1, 2013 to September 30, 2013			(21.78)	(152)
2,000	January 1, 2014 to June 30, 2014			(19.55)	1,022
2,000	July 1, 2014 to December 31, 2014			(21.85)	(210)
1,000	July 1, 2014 to September 30, 2014			(22.00)	(93)
3,300	January 1, 2013 to December 31, 2013		$108.03		(704)
1,300	January 1, 2014 to December 31, 2014		$110.00		(843)
Crude oil fair value position					$ (7,937)

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

(2) WCS represents the posting price of Western Canadian Select oil

Crude Oil Swaption Derivative Contracts

Daily barrel (boe) quantity	Option contract expiry	Term of underlying WTI [1] fixed call	Fixed call price per bbl WTI [1]	Fair market value *$000's*
1,000	June 28, 2013	July 1, 2013 to December 31, 2013	$US95.00	$ (715)
3,000	June 30, 2013	January 1, 2014 to December 31, 2014	$US100.00	(930)
2,000	September 30, 2013	January 1, 2014 to December 31, 2014	$US100.00	(1,322)
1,000	December 31, 2013	January 1, 2014 to December 31, 2014	$US100.00	(796)
2,000	December 31, 2013	January 1, 2014 to June 30, 2014	$C100.00	(1,175)
Crude oil swaption fair value position				$ (4,938)

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

Natural Gas Sales Price Derivatives

Daily giga-joule (GJ) quantity	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	$ 2,432
Natural gas fair value position			$ 2,432

(b) Capital management

Twin Butte's capital structure as at March 31, 2013 and December 31, 2012 is as follows:

	March 31, 2013	Dec 31, 2012
Bank indebtedness	**$ 188,636**	$ 184,261
Working capital deficit (surplus) [1]	**11,906**	17,442
Net debt [2]	**$ 200,542**	$ 201,703
Shareholders' Equity	**$ 432,481**	$ 471,501
Net Debt to Equity [2]	**0.46**	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 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 $188.6 million of its dedicated credit facility. The working capital deficit of $11.9 million and bank debt of $188.6 million resulted in $200.5 million of net debt (December 31, 2012 – $201.7 million). The Company strives to maintain a debt to equity level below 0.50. The debt to equity levels at March 31, 2013 and December 31, 2012 were below this level, at 0.46 and 0.43, respectively.

NOTE 5. EXPLORATION AND EVALUATION ASSETS

Balance at January 1, 2012	$	17,044
Acquisitions		54,305
Transferred to property, plant and equipment (note 6)		(49)
Dispositions		(483)
Exploration and evaluation expense – land expiries		(5,038)
Balance at December 31, 2012	$	65,779
Acquisitions and purchases		503
Transferred to property, plant and equipment (note 6)		(117)
Dispositions		(542)
Exploration and evaluation expense – land expiries		(5,635)
Balance at March 31, 2013	**$**	**59,988**

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. In the period ended March 31, 2013, expense of $5.6 million was recognized ($1 million – March 31, 2012) for current and future land expiries for which management has neither budgeted nor planned further exploration.

During the three months ended March 31, 2013, Twin Butte completed the sale of several non-core E&E assets in Alberta for net proceeds of $3.5 million ($nil – March 31, 2012). A $3.2 million gain was recognized on these transactions.

NOTE 6. PROPERTY AND EQUIPMENT

Cost:		Oil & gas properties		Office equipment		Total
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 E&E assets (note 5)		49		–		49
Disposals		(8,015)		–		(8,015)
Balance at December 31, 2012	$	892,335	$	219	$	892,554
Additions		23,495		–		23,495
Acquisitions		–		–		–
Changes in decommissioning provision		7,571		–		7,571
Transfers from E&E assets (note 5)		117		–		117
Disposals		(253)		–		(253)
Balance at March 31, 2013	**$**	**923,265**	**$**	**219**	**$**	**923,484**
Accumulated depletion, depreciation and impairment losses:						
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
Depletion and depreciation expense		30,642		–		30,642
Impairment expense		–		–		–
Disposals		(45)		–		(45)
Balance at March 31, 2013	**$**	**253,604**	**$**	**219**	**$**	**253,823**
Net Carrying Value:						
December 31, 2012		669,328		–		669,328
March 31, 2013	**$**	**669,661**	**$**	**–**	**$**	**669,661**

There were no indicators of PP&E impairment as of March 31, 2013. The Company capitalized $0.9 million of general and administrative expenses ($0.6 million – March 31, 2012) and $0.3 million of share based compensation expenses ($0.7 million – March 31, 2012) directly related to development and production activities for the three months ended March 31, 2013.

Future development costs on proved plus probable undeveloped reserves of $264.3 million as at March 31, 2013 are included in the calculation of depletion ($193.3 million – March 31, 2013).

During the three months ended March 31, 2013, Twin Butte completed the sale of a non-core property in Saskatchewan for net proceeds of $0.6 million ($6.3 million – March 31, 2012). A $0.7 million gain was recognized on this transaction ($3.0 million – March 31, 2012).

NOTE 7. BANK INDEBTEDNESS

At March 31, 2013, the Company's dedicated bank facility consists of a revolving line of credit of $255 million and an operating line of credit of $25 million, 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. The annual credit facility review is currently underway and the expiry of the current annual revolving period was extended until May 30, 2013 from April 30, 2013 for administrative reasons.

Interest rates are based on the Bank of Canada prime rate, plus 1% to 2.5% as determined by a pricing grid using the Company's debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio for the preceding four quarters. The bank currently charges prime plus 1.25%. The effective rate for three months ended March 31, 2013 was 3.3% (3.5% – March 31, 2012). As at March 31, 2013, the Company's facility was not in default.

NOTE 8. DECOMMISSIONING PROVISION

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

The Company has estimated the present value of its total decommissioning provision to be $96.0 million at March 31, 2013 ($89.0 million – December 31, 2012), based on a total future liability of $143.3 million ($127.7 million – December 31, 2012). Payments to settle the obligations occur over the operating lives of the underlying assets and are estimated to be from 2 to 50 years, with the majority of costs to be incurred after 2025. A risk free rate of 2.5% and an inflation rate of 2% (2.5% and 2% – December 31, 2012) were used to calculate the present value of the decommissioning provision.

Changes to the decommissioning provision are as follows:

	Period ended March 31, 2013	Year ended Dec 31, 2012
Decommissioning provision, beginning of period	**$ 88,991**	$ 38,401
Liabilities incurred	**1,147**	3,195
Liabilities settled	**(537)**	(1,140)
Liabilities acquired from acquisitions	**–**	36,748
Liabilities reduced from dispositions	**(586)**	(378)
Effect of change in risk free rate (1)	**–**	16,187
Revisions in estimated cash outflows	**6,424**	(5,645)
Accretion of decommissioning provision	**555**	1,623
Decommissioning provision, end of period	**$ 95,994**	$ 88,991

(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.

NOTE 9. SHAREHOLDERS' EQUITY

Authorized

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

	Number of common shares *(000's)*	Share capital $
Balance at December 31, 2011	135,419	$ 227,520
Common shares issued pursuant to corporate acquisitions	108,915	287,737
Common shares issued under share award plan	3,271	6,052
Common shares issued under option plan	102	241
Common shares issued pursuant to the DRIP	636	1,676
Other	(31)	–
Balance at December 31, 2012	248,312	$ 523,226
Common shares issued under share award plan	820	1,896
Common shares issued pursuant to the DRIP	666	1,503
Balance at March 31, 2013	**249,798**	**$ 526,625**

During the three months ended March 31, 2013, 819,743 share awards and nil options were exercised by employees.

The total number of shares reserved for Share-based payments is 24,979,800 (24,831,200 – December 31, 2012). As at March 31, 2013 there were 4,887,157 common share awards, included reinvested dividends (4,199,716 – December 31, 2012) and 895,434 (895,434 – December 31, 2012) options outstanding under the plans or a total of 2.0% of outstanding shares.

Dividends declared during the three months ended March 31, 2013 totaled $12.6 million ($8.6 million – March 31, 2012), equivalent to $0.051 per weighted-average share ($0.045 per weighted average share – March 31, 2012).

Share-based payments

(a) Share award plan

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 value of 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 outstanding share awards and related dividend and performance factor activity through March 31, 2013:

	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 from options	4,638,938	1.27	–	–
Granted	1,603,529	2.53	1,224,734	2.54
Granted – Performance factor	–	–	429,754	2.54
Reinvested dividends	199,931	1.96	63,271	2.50
Vested and converted to common shares	(3,534,870)	1.16	–	–
Forfeited	(425,571)	2.41	–	–
Outstanding at December 31, 2012	2,481,957	$ 2.17	1,717,759	$ 2.54
Granted	1,076,440	2.55	455,342	2.57
Reinvested dividends	63,443	2.26	33,247	2.54
Vested and converted to common shares	(311,630)	2.44	(508,113)	2.48
Forfeited	(121,031)	2.63	(257)	2.48
Outstanding at March 31, 2013	**3,189,179**	**$ 2.25**	**1,697,978**	**$ 2.57**

Twin Butte recorded share-based payment expense of $1.4 million for the three months ended March 31, 2013 (March 31, 2012 – $0.9 million).

A 35% forfeiture rate were used to estimate the Company's share-based payment expense for the three months ended March 31, 2013 (March 31, 2012 – 35%).

(b) Stock option plan

Following the initiation of the Share Award Plan in January 2012, there have been no further stock options granted and remaining outstanding options will be either exercised or forfeited. Stock 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.

In the three months ended March 31, 2013, there was no stock option plan activity. As at March 31, 2013 and December 31, 2012 there were 895,434 options outstanding at a weighted average exercise price of $2.65. There were 324,701 options exercisable as at March 31, 2013 (36,666 – March 31, 2012) at an average exercise price of $2.60 per share ($1.47 – March 31, 2012).

The following table outlines the weighted average exercise price and weighted average years to expiry of all outstanding options:

	March 31, 2013			December 31, 2012		
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
$0.92 – 1.24	**10,000**	**0.98**	**1.65**	10,000	1.89	0.98
$1.25 – 1.51	**11,667**	**1.31**	**2.01**	11,667	2.26	1.31
$1.52 – 3.32	**873,767**	**2.68**	**3.15**	873,767	3.39	2.68
	895,434	**2.65**	**3.12**	895,434	2.65	3.36

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:

	Three months ended March 31	
	2013	2012
Net income (loss) for the period	**$ (29,633)**	$ 14,983
Weighted average number of basic shares *(000's)*	**249,311**	185,739
Effect of dilutive securities:		
Stock options and share awards *(000's)*	**–**	660
Weighted average number of diluted shares *(000's)*	**249,311**	186,399
Net income (loss) per share basic ($)	**(0.12)**	0.08
Net income (loss) per share diluted ($)	**(0.12)**	0.08

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.

Due to the net loss for the period, share awards and stock options have been excluded from the calculation of diluted net income (loss) for the period, as the impact would have been anti-dilutive. In the three months ended March 31, 2013 and 2012, outstanding stock options and share awards were the only potentially dilutive instruments.

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

	Three months ended March 31	
	2013	2012
Staff salaries and benefits	**$ 3,152**	$ 2,150
Rent and insurance	**296**	389
Office and other costs	**1,585**	1,379
Capitalized G&A	**(874)**	(798)
Capitalized overhead recoveries	**(728)**	(678)
	$ 3,431	$ 2,442

NOTE 11. FINANCE EXPENSE

	Three months ended March 31	
	2013	2012
Accretion on decommissioning provision	**$ 555**	$ 239
Interest and bank charges	**1,551**	1,356
Total	**$ 2,106**	$ 1,595

NOTE 12. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended March 31	
	2013	2012
Changes in non-cash working capital:		
Accounts receivable	**$ 2,009**	$ 6,180
Deposits and prepaid expenses	**(1,508)**	(1,034)
Accounts payable and accrued liabilities	**(6,684)**	2,097
Dividends Payable	**647**	2,875
	$ (5,536)	$ 10,118
Changes in non-cash working capital relating to:		
Operating activities	**$ (3,317)**	$ (127)
Financing activities	**647**	2,875
Investing activities	**(2,866)**	7,370
	$ (5,536)	$ 10,118

NOTE 13. RELATED PARTY TRANSACTIONS

During the three month period ended March 31, 2013, the Company incurred costs totaling $2.2 million ($2.3 million – March 31, 2012) 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 and were recorded at the exchange amount. As at March 31, 2013, the Company had $1.5 million ($4.3 million – December 31, 2012) included in accounts payable and accrued liabilities related to these transactions.

NOTE 14. COMMITMENTS AND CONTINGENCIES

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

($ thousands)	2013	2014	2015	2016	2017	2018	thereafter
	784	1,182	1,173	1,175	1,196	498	–

NOTE 15. SUBSEQUENT EVENTS

Crude Oil Sales Price Derivative Contracts

Subsequent to March 31, 2013 the Company entered into a crude oil price derivative. The average barrels and prices for this derivative are as follows:

Daily barrel (boe) quantity	Term of contract	Fixed $WCS vs. boe (WTI)
1,000	January 1, 2014 to December 31, 2014	($22.00)

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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SOLICITORS

Burnet, Duckworth & Palmer LLP
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ENGINEERS

McDaniel & Associates Consultants Ltd.
Calgary, AB

REGISTRAR & TRANSFER AGENT

Valiant Trust Company
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