TWIN BUTTE ENERGY LTD.

THIRD QUARTER 2013

HIGHLIGHTS

($000's, except per share amounts)	Three months ended September 30 2013	2012	% Change	Nine months ended September 30 2013	2012	% Change
FINANCIAL						
Petroleum and natural gas sales	**117,478**	73,386	60%	**287,739**	216,056	33%
Funds flow (1)	**34,899**	38,119	-8%	**100,380**	98,281	2%
Per share basic	**0.14**	0.19	-26%	**0.40**	0.50	-20%
Per share diluted	**0.14**	0.19	-26%	**0.40**	0.50	-20%
Net income (loss)	**8,111**	(7,411)	-209%	**(27,605)**	36,912	-175%
Per share basic	**0.03**	(0.04)	-175%	**(0.11)**	0.19	-158%
Per share diluted	**0.03**	(0.04)	-175%	**(0.11)**	0.19	-158%
Dividends declared	**12,079**	9,401	28%	**36,709**	26,674	38%
Dividends declared, Post DRIP	**10,782**	8,861	22%	**32,052**	26,134	23%
Capital expenditures (2)	**9,027**	17,827	-49%	**43,544**	51,133	-15%
Corporate acquisitions (2)	**–**	89,128	0%	**–**	290,411	-100%
Net debt (3)	**179,012**	146,843	22%	**179,012**	146,843	22%
OPERATING						
Average daily production						
Crude oil (bbl per day)	**14,042**	11,589	21%	**14,432**	11,066	30%
Natural gas (Mcf per day)	**12,111**	11,695	4%	**12,888**	14,289	-10%
Natural gas liquids (bbl per day)	**202**	213	-5%	**205**	277	-26%
Barrels of oil equivalent (boe per day, 6:1)	**16,263**	13,752	18%	**16,785**	13,724	22%
% Oil and NGLs	**88%**	86%	2%	**87%**	83%	5%
Average sales price						
Crude oil ($ per bbl)	**87.52**	64.97	35%	**68.87**	66.21	4%
Natural gas ($ per Mcf)	**2.64**	2.42	9%	**3.37**	2.28	48%
Natural gas liquids ($ per bbl)	**78.71**	76.97	2%	**80.80**	84.48	-4%
Barrels of oil equivalent ($ per boe, 6:1)	**78.52**	58.01	35%	**62.79**	57.46	9%
Operating netback ($ per boe) (4)						
Petroleum and natural gas sales	**78.52**	58.01	35%	**62.79**	57.46	9%
Cash (loss) gain on derivative instruments	**(10.87)**	8.02	-236%	**0.27**	5.75	-95%
Royalties	**(17.51)**	(11.40)	-54%	**(13.29)**	(12.89)	-3%
Operating expenses	**(21.53)**	(18.38)	-17%	**(22.12)**	(18.05)	-23%
Transportation expenses	**(2.48)**	(2.45)	-1%	**(2.59)**	(2.39)	-8%
Operating netback	**26.13**	33.80	-23%	**25.06**	29.88	-16%
Wells drilled						
Gross	**31.0**	24.0	29%	**71.0**	72.0	-1%
Net	**31.0**	18.0	72%	**71.0**	54.2	31%
Success (%)	**92**	100	-8%	**92**	98	-6%
COMMON SHARES						
Shares outstanding, end of period	**252,059,154**	217,224,921	16%	**252,059,154**	217,224,921	16%
Weighted average shares outstanding – diluted	**252,285,450**	201,321,327	25%	**251,380,863**	194,178,075	29%

(1) Funds flow from operations and funds flow from operating 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 THIRD QUARTER 2013 ARE AS FOLLOWS:

- Continued demonstration of a disciplined business plan, supporting our sustainable dividend paying model with a payout ratio of 60 percent and a total payout ratio net of the DRIP and SDP of 57 percent in the third quarter 2013. For the nine months ended September 30 the payout ratio was 80 percent and total payout ratio net of the DRIP and SDP was 75 percent. Since implementation of the Company's dividend in January 2012, $0.30 per share in dividends have been paid as at the end of September.
- Recorded quarterly production of 16,263 boe per day, an increase of 18 percent over the same period of 2012.
- Generated quarterly funds flow of $34.9 million, which strongly supported the dividend and net capital program while providing excess cash flow to reduce debt by $14.7 million over the quarter.
- Executed an organic capital program of $30.7 million at a 90 percent success rate, which included the drilling of 31 gross (31 net) wells, including 10 horizontal wells. The Company successfully divested of a net $21.7 million (350 boe per day) in non-core assets in the quarter resulting in a $9.0 million net capital program.
- Maintained a solid balance sheet with net debt at $179.0 million relative to the September 30 credit facility of $280 million, representing a run rate debt to cash flow of 1.3 years.

CORPORATE

The third quarter of 2013 was highlighted by a successful drilling program in combination with several strategic non-core asset dispositions. Twin Butte's disciplined use of capital positioned the Company's balance sheet for the early fourth quarter acquisition of Black Shire Energy Inc. ("Black Shire"). The subject transaction, which closed on November 5th, has significantly enhanced the Company's cash generating capability providing for continued dividend sustainability while increasing the Company's strong horizontal drilling inventory. The Black Shire acquisition added a new core operating area in the greater Provost area producing 7,000 boe per day (93% medium gravity oil). Post the acquisition, our strategy of delivering long term total returns to shareholders based on a sustainable dividend plus moderate production per share growth has never been stronger.

Strong commodity pricing in both West Texas Intermediate ("WTI") and the heavy oil benchmark Western Canadian Select ("WCS") through the second and third quarters of 2013 have now reverted to numbers similar to late 2012. Short term through the end of the first quarter of 2014 forecast pricing resembles pricing from a year ago, but the Company remains optimistic long term quality differentials will be minimized as additional Canadian export capacity is developed and the demand for Canadian heavy oil increases. Fortunately, the Company's strong hedge position will provide downside price protection through the end of 2013. The Company does have exposure to the current differential forecast in early 2014 but will monitor conditions and has phased 2014 capital spending accordingly.

FINANCIAL

The third quarter provided our highest funds flow from operations this year at $34.9 million, largely due to stronger commodity pricing as well as an improvement in operating costs over the second quarter. Capital spending for the third quarter was $9.0 million after netting $21.7 million of non-core property dispositions. The Company has delivered a successful focused disposition program having sold $29.3 million of noncore assets year to date as our operations grow more focused to the greater Lloydminster and Provost areas. In 2014 the Company believes it will continue to have success in its non-core disposition program as a way of continually focusing and enhancing the quality of its asset base.

Post closing the Black Shire acquisition, the Company has total net debt of approximately $367 million on a recently expanded $400 million credit facility. This current debt represents approximately 1.7 times forecast 2014 cash flow.

Operating costs in the third quarter decreased to $21.53 per boe, as a result of increased production volumes from successful drilling at areas such as Wildmere and Swimming. The Company's focused drilling program in both areas has led to lower unit costs, something the Company anticipates will be a continuing trend. The recently closed acquisition of Black Shire will further concentrate the Company's operations which are anticipated to lower overall corporate operating costs by $1.00 to $2.00 per boe in 2014.

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

At the current annual dividend rate of $0.192 per share the Company continues to target a sustainable total (dividend plus capital expenditure) payout ratio of less than 100 percent of cash flow on an annual basis. This will ensure balance sheet flexibility is maintained while providing shareholders moderate organic production growth. The Company's Board of Directors has approved continuation of the existing dividend to the end of the first quarter of 2014.

OPERATIONS

During the third quarter of 2013 Twin Butte maintained its high historic drilling success rate, drilling 31 gross (31 net) wells, achieving a 90 percent success rate, including a number of successful exploratory wells which will lead to additional development offset drilling over the next few quarters. The high success rate continues to demonstrate the predictable and repeatable potential of the Company's drilling inventory, which recently expanded to over 800 net conventional heavy and medium gravity oil wells post the Black Shire acquisition. The Company's drilling focus will continue to be within the Lloydminster area as well as the newly acquired medium oil gravity assets at Provost.

The Company's progression to more horizontally based drilling is part of an ongoing effort to maintain and improve the Company's capital efficiencies. Twin Butte continues to expand its horizontal drilling inventory and the Black Shire acquisition has added in excess of 100 drill ready, highly repeatable, horizontal locations. Of the 31 wells drilled in the third quarter, 10 were horizontal wells that continue to meet or surpass our capital efficiency and production criteria. The Company now anticipates upwards of 37 horizontal wells will be drilled in 2013. Twin Butte sees this trend continuing and it is anticipated that the Company will drill between 70 - 80 horizontal wells and 40-60 vertical wells in the Lloydminster and Provost areas in 2014.

In the third quarter of 2013, Twin Butte drilled nine horizontal wells at Wildmere as follow up to successful horizontal drilling in the first and second quarter. Drilling continues at Wildmere in the fourth quarter with an additional 6 successful wells already completed. Twin Butte estimates that Wildmere's drilling inventory is at least 35 wells based on the recently expanded undeveloped land base at the property. Expansion of existing area infrastructure at Wildmere is planned for the fourth quarter, which will support continued attractive netbacks from the property.

At Frog Lake, the first of a planned three well fourth quarter horizontal program has recently spud. At Soda Lake three horizontal wells have been recently drilled to de-risk area lands.

Based on the success of the Company's horizontal drilling program, its growing inventory of horizontal locations, as well as the drilling inventory added with the Black Shire acquisition, Twin Butte is confident its operational momentum and production growth will be reestablished over the next number of quarters. This will lead to further stability and potential increases in the Company's cash flow, and provide further sustainability of the Company's dividend.

Late in the second quarter of 2013 Twin Butte completed construction of a cleaning/staging facility at Lashburn which has lead to increased rail car shipments now exceeding 30 percent of the Company's heavy oil volumes. Throughout the third quarter over a $2.00 per bbl premium was received on volumes shipped by rail and the Company anticipates with higher differentials late in 2013 and early 2014 these premiums will be significantly enhanced. The possibility of increasing the facility capacity in early 2014 is being evaluated.

OUTLOOK

Twin Butte will continue to execute its stated business plan in 2013 and 2014. The Company believes its business plan of a sustainable dividend and moderate per share growth will continue to attract investor interest over the long term. We remain committed to continually enhancing the Company's asset quality through organic growth and strategic acquisitions.

As a larger, stronger company post the Black Shire acquisition, the Company is on track to meet a 2013 exit production rate of 23,300 boe per day while maintaining debt below $370 million. The Company anticipates these volumes will grow to approximately 24,500 by the end of 2014 providing approximately 5 percent growth. Based on a forecast 2014 annual production rate of 23,500 boe per day (92 percent oil) a West Texas oil price of $95 US and a differential to Western Canadian Select of $24 per bbl the Company anticipates 2014 cash flow will exceed $210 million. The company anticipates paying approximately $65 million in dividends leaving approximately $145 for its planned capital program. The Company's capital expenditures will continue to be matched with cash flows to ensure the Company continues to operate at or below a 100 percent total payout ratio on an annual basis.

In light of the abnormally high WTI vs. WCS differentials forecast for early 2014 and the fact that differentials are forecast to contract materially later in 2014, the Company anticipates phasing its capital spending program to be somewhat weighted to the latter half of 2014. This will ensure production volumes are optimized with commodity pricing therefore minimizing payout periods and maximizing return on investment.

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 800 net medium and heavy oil drilling locations. The Company's growing horizontal program has made a meaningful difference to corporate performance. Conventional medium and heavy oil 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.

A sustained pace of repeatable development drilling and disciplined capital spending will 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 medium and heavy oil exploitation. With a stable low decline production base the Company is well positioned to live within cash flow while providing shareholders with a sustainable dividend and moderate per share production growth potential over the long term.

(signed)

Jim Saunders
President and C.E.O.

November 14, 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 news release 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 news release 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 news release, 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 news release, 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 news release, 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 news release speak only as of the date of this news release. 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 news release 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 news release 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. In addition the terms payout and total payout are also not recognized terms under GAAP. Payout is defined as funds flow less dividends paid and capital expenditures before corporate acquisitions. Total payout would see the dividends paid include only cash dividends.

Analogous Information

In this news release, 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 news release, 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 news release are made as at the date of this news release 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as of November 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 and nine months ended September 30, 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. 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. The term funds flow from operations or funds flow 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. 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 September 30		Nine months ended September 30	
	2013	2012	**2013**	2012
Sales *($000's)*				
Heavy oil	**108,519**	64,158	**257,185**	184,040
Light & Medium oil	**4,550**	5,120	**14,164**	16,695
Natural gas	**2,942**	2,600	**11,872**	8,916
Natural gas liquids	**1,467**	1,508	**4,518**	6,405
Total petroleum and natural gas sales	**117,478**	73,386	**287,739**	216,056
Average Daily Production				
Heavy oil (bbl/day)	**13,541**	10,854	**13,800**	10,299
Light & medium oil (bbl/day)	**501**	736	**632**	766
Natural gas (Mcf/day)	**12,111**	11,695	**12,888**	14,289
Natural gas liquids (bbl/day)	**202**	213	**205**	277
Total (boe/d)	**16,263**	13,752	**16,785**	13,724
% oil and liquids production	**88%**	86%	**87%**	83%
Average Twin Butte Realized Commodity Prices (1)				
Heavy oil ($ per bbl)	**87.11**	64.26	**68.26**	65.22
Light & Medium oil ($ per bbl)	**98.72**	75.58	**82.14**	79.49
Natural gas ($ per Mcf)	**2.64**	2.42	**3.37**	2.28
Natural gas liquids ($ per bbl)	**78.71**	76.97	**80.80**	84.48
Barrels of oil equivalent ($ per boe, 6:1)	**78.52**	58.01	**62.79**	57.46

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

	Three months ended September 30		Nine months ended September 30	
	2013	2012	**2013**	2012
Benchmark Pricing				
WTI crude oil (US$ per bbl)	**105.82**	92.22	**98.14**	96.21
Edmonton crude oil (Cdn$ per bbl)	**105.18**	84.79	**95.62**	87.30
WCS crude oil (Cdn$ per bbl)	**92.91**	71.01	**78.33**	75.32
AECO natural gas (Cdn$ per Mcf) (2)	**2.31**	2.20	**2.90**	2.01
Exchange rate (US$/Cdn$)	**1.04**	0.99	**1.02**	1.00

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

Sales for the three months ended September 30, 2013 were $117.5 million, as compared to $73.4 million for the three months ended September 30, 2012, representing an increase of $44.1 million or 60%. Both production and the average realized commodity price increased from the prior period quarter, resulting in increased sales. Excluding the impact of derivative instruments, the average realized commodity price increased from $58.01 in the third quarter of 2012 to $78.52 during the third quarter of 2013. This 35% increase in realized price was due to both an increased WTI Benchmark and a stronger Canadian heavy oil price environment, marked by narrowing WCS crude oil differentials. Compared to the prior year quarter, the WTI crude oil benchmark increased 15%, and the WCS benchmark increased 31%. Twin Butte also saw decreased blending costs as a result of reduced condensate pricing during the third quarter of 2013.

Production also increased from 13,752 boe/d in the three months ended September 30, 2012 to 16,263 boe/d for the three months ended September 30, 2013. This increase of 2,511 boe/d is due the Company's drilling program, as well as corporate and property acquisitions in Q4 2012. Production gains were partially offset by previously reported reservoir performance issues at Primate. 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 12% of production volumes, and only 3% of sales revenue.

Sales for the nine months ended September 30, 2013 were $287.7 million, as compared to $216.1 million for the nine months ended September 30, 2012, representing an increase of $71.6 million or 33%. This increase in sales is attributed to a 22% increase in production, increased realized commodity prices and an increase in oil and liquids weighting from 83% to 88%. Production increased from 13,724 boe/d in the nine months ended September 30, 2012 to 16,785 boe/d in the comparable period in 2013. The average realized commodity price before hedging increased from $57.46 per boe in the nine months ended September 30, 2012 to $62.79 per boe in the comparable period of 2013.

ROYALTIES

	Three months ended September 30		Nine months ended September 30	
($000's except per boe amounts)	**2013**	2012	**2013**	2012
Heavy Oil	**23,423**	11,355	**54,068**	38,978
Light & Medium oil	**2,412**	2,663	**5,356**	7,678
Natural Gas	**(108)**	(83)	**424**	(138)
NGLs	**466**	484	**1,058**	1,958
Total Royalties	**26,193**	14,419	**60,906**	48,476
Total royalties per boe	**17.51**	11.40	**13.29**	12.89
% of P&NG Sales	**22%**	20%	**21%**	22%

Royalties for the three months ended September 30, 2013 were $26.2 million, as compared to $14.4 million for the three months ended September 30, 2012. As a percentage of sales, the average royalty rate for the first quarter of 2013 increased to 22% compared to 20% in the third quarter of 2012, with oil averaging 23% and gas averaging (-4)%. Heavy oil royalty rates increased from the prior year quarter due to high benchmark commodity prices in the quarter and the corresponding provincial crude oil royalty calculation input prices. Gas royalty rates are negative during the quarter due to reduced gas production, combined with gas cost allowance credits, and credits received relating to prior year production.

Royalties for the nine months ended September 30, 2013 were $60.9 million, as compared to $48.5 million for the nine months ended September 30, 2012. As a percentage of revenues, the average royalty rate for the nine month period ended September 30, 2013 was 21% compared to 22% for the comparative period in 2012. Despite the Company's oil weighting increasing 4% from the prior year, this rate decreased due to a reduction in the provincial crude oil royalty calculation heavy oil input prices in Q1 2013, which were set at a lower rate, resulting in lower royalties during the first part of the nine month period.

OPERATING & TRANSPORTATION EXPENSE

	Three months ended September 30		Nine months ended September 30	
($000's except per boe amounts)	**2013**	2012	**2013**	2012
Operating expense	**32,217**	23,250	**101,339**	67,856
Transportation	**3,713**	3,098	**11,876**	8,999
Total operating & transportation expense	**35,930**	26,348	**113,215**	76,855
Operating expense per boe	**21.53**	18.38	**22.12**	18.05
Transportation expense per boe	**2.48**	2.45	**2.59**	2.39
Total per boe	**24.01**	20.83	**24.71**	20.24

Operating expenses were $32.2 million or $21.53 per boe for the quarter ended September 30, 2013 as compared to $23.3 million or $18.38 per boe for the three months ended September 30, 2012. In comparison to the prior year quarter, the Company is facing overall cost pressure due to the increasing cost of propane and an oil-based well mix that requires increased workovers. Changes in property mix have also increased costs in the quarter, as certain high producing areas have water hauling costs per boe above the Company's average.

Operating expenses were $101.3 million or $22.12 per boe for the nine months ended September 30, 2013, as compared to $67.9 million or $18.05 per boe for the nine months ended September 30, 2012. The increase on an absolute dollar basis is mainly attributable to the production growth from acquisitions in 2012, combined with internal drilling successes. On a per boe basis, cost increases are related to overall cost pressures and changes in our property mix.

Transportation expenses for the three months ended September 30, 2013 were $3.7 million or $2.48 per boe compared to $3.1 million or $2.45 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 remained constant, as compared to the prior year quarter.

Transportation expenses for the nine months ended September 30, 2013 were $11.9 million or $2.59 per boe compared to $9.0 million or $2.39 per boe in the prior year comparative period. Increasing production contributed to this increase on an absolute basis, while road bans in the second quarter of 2013 caused the increase on a per boe basis.

The Company has combined operating and transportation costs of $24.01 per boe for the quarter, an increase from $20.83 per boe for the comparable period of 2012. This 17% increase is driven by increases in operating costs. The Company targets all-in operating and transportation costs of $23.50 per boe for the remainder of 2013.

GENERAL AND ADMINISTRATIVE ("G&A") EXPENSES

	Three months ended September 30		Nine months ended September 30	
($000's except per boe amounts)	**2013**	2012	**2013**	2012
G&A expense	**4,250**	4,194	**14,036**	11,354
Recoveries	**(922)**	(616)	**(2,374)**	(1,745)
Capitalized G&A expense	**(900)**	(775)	**(2,662)**	(2,339)
Total net G&A expense	**2,428**	2,803	**9,000**	7,270
Total net G&A expense per boe	**1.62**	2.22	**1.96**	1.93
Transaction expense	**–**	782	**55**	3,006
Transaction expense per boe	**–**	0.62	**0.01**	0.80

General and administrative expenses, net of recoveries and capitalized G&A, were $2.4 million or $1.62 per boe for the current quarter as compared to $2.8 million or $2.22 per boe in the prior year comparative quarter. The Company's expenses have remained constant, while increased capital spending has increased G&A recoveries, resulting in a net decrease in G&A. On a per boe basis, G&A has also decreased, as production has increased compared to the prior year period. Net G&A expense for the nine month period ended September 30, 2013 was $9.0 million or $1.96 per boe, compared to $7.3 million of $1.93 per boe in the prior year comparative period.

The Company targets G&A for the fourth quarter to be less than $2.00 per boe, before transaction costs related to the Black Shire Energy Inc. acquisition. G&A including transaction costs is expected to approximate $4.75 per boe for the fourth quarter of 2013. 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, and Avalon corporate acquisitions.

SHARE-BASED PAYMENT EXPENSE

	Three months ended September 30		Nine months ended September 30	
($000's except per boe amounts)	**2013**	2012	**2013**	2012
Total	**708**	892	**3,283**	2,838
Total per boe	**0.47**	0.70	**0.72**	0.75

During the three months ended September 30, 2013, the Company expensed $0.7 million in share-based payment expense as compared to $0.9 million in the three month period ended September 30, 2012. The Company granted 662,384 share awards, 536,822 performance share awards and nil stock options in the third quarter of 2013 as compared to 735,793 share awards in the third quarter of 2012. Total share awards forfeited due to employee departures were 98,584 in the quarter versus 70,802 awards forfeited in the third quarter last year.

During the nine month period ended September 30, 2013, the Company expensed $3.3 million in stock-based compensation as compared to $2.8 million in the prior year comparative period. As this is the second year of the program, costs have increased due to expense related to both current year and prior year grants and dividend accumulation.

At September 30, 2013, the Company has 3,356,858 restricted share awards, 2,099,682 performance share awards and 782,101 options outstanding.

FINANCE EXPENSE

	Three months ended September 30		Nine months ended September 30	
($000's except per boe amounts)	**2013**	2012	**2013**	2012
Accretion on decommissioning provision	**608**	446	**1,761**	1,128
Interest and bank charges	**1,768**	1,061	**5,415**	3,773
Total finance expense	**2,376**	1,507	**7,176**	4,901
Accretion on decommissioning provision per boe	**0.41**	0.34	**0.38**	0.30
Interest and bank charges per boe	**1.18**	0.85	**1.18**	1.00
Total finance expense per boe	**1.59**	1.19	**1.56**	1.30

For the three months ended September 30, 2013, finance charges were $2.4 million as compared to $1.5 million in the three month period ended September 30, 2012. This increase is due to increased average bank debt for the quarter, which was $178 million compared to $140 million in the prior year quarter. For the nine months ended September 30, 2012, finance charges also increased and were $7.2 million as compared to $4.9 million in the prior year comparative period.

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%. The effective interest rate for the quarter was 4.0%, as the Company utilized Bankers Acceptances to reduce the overall effective interest rate.

DERIVATIVE ACTIVITIES

	Three months ended September 30		Nine months ended September 30	
($000's except per boe amounts)	**2013**	2012	**2013**	2012
Realized gain (loss)	**(16,260)**	10,145	**(6,711)**	21,604
Cash gain (loss) - Swaptions	**–**	–	**7,943**	–
Unrealized gain (loss)	**1,300**	(21,736)	**(29,553)**	13,999
Gain (loss) on derivatives	**(14,960)**	(11,591)	**(28,321)**	35,603
Realized gain (loss) on derivatives per boe	**(10.87)**	8.02	**(1.46)**	5.75
Cash gain (loss) on derivatives per boe - Swaptions	**–**	–	**1.73**	–
Unrealized gain (loss) on derivatives per boe	**0.87**	(17.18)	**(6.45)**	3.72
Gain (loss) on derivatives per boe	**(10.00)**	(9.16)	**(6.18)**	9.47

As part of the financial management strategy to protect cash flows available for the payment of dividends and our capital program, 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 third quarter of 2013, Twin Butte entered into fixed price crude oil swaps for 2014 and 2015 production periods.

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 loss of $16.3 million ($10.87 per boe) for the three month period ended September 30, 2013, compared to a realized gain of $10.1 million ($8.02 per boe) for the prior quarter comparative period. During the quarter, the total loss was due to fixed price swaps, and was comprised of a $17.9 million loss on crude oil sales price derivatives and a gain of $1.6 million on natural gas sales price derivatives.

For the nine month period ended September 30, 2013, The Company realized total cash proceeds on financial derivatives in the amount of $1.2 million ($0.27 per boe) comprised of a $6.7 million ($1.46 per boe) loss from fixed price swaps and $7.9 million ($1.73 per boe) in proceeds from crude oil swaptions sold. This compares to a realized gain on fixed price swaps of $21.6 million ($5.75 per boe) for the prior quarter comparative period. The realized gain on fixed price swaps in 2013 was split between a gain of $3.4 million for natural gas sales price derivatives, a loss of $10.0 million for crude oil sales price derivatives, and a foreign exchange loss of $0.1 million during the period.

As at September 30, 2013, the Company has a net unrealized financial derivative liability in the amount of $10.3 million. This net unrealized loss position reflects strong WTI benchmark forward pricing and is slightly offset by unrealized gains on WCS differential fixed price oil swaps for 2014.

The Company has recognized an unrealized gain on financial derivatives in the amount of $1.3 million for the three month period ended September 30, 2013 as compared to $21.7 million unrealized loss for the prior year comparative period. This unrealized gain is due to a decrease in the net liability from June 30, 2013 to September 30, 2013, as both WTI and WCS fixed price oil swaps in the quarter were realized as losses, which reduced the unrealized portion of the liability. Also reducing the liability were new WCS fixed price oil swaps for 2014 entered into during the quarter, which are in an unrealized asset position as of September 30, 2013. For the nine months period ended September 30, 2013, the Company has recognized an unrealized loss of $29.6 million, as WTI and WCS benchmarks have increased and narrowed, respectively, from December 31, 2012 to September 30, 2013.

The following is a summary of derivatives as at September 30, 2013 and their related fair market values (unrealized gain (loss) positions):

Crude Oil Sales Price Derivatives

Daily barrel (bbl) quantity	Term of contract	WTI(1) Fixed price per bbl ($CAD)	Fixed written call price per bbl WTI (1) ($USD)	Fixed price per bbl WCS (2) vs. WTI (1) ($CAD)	Fair market value *$000's*
4,500	January 1, 2013 to December 31, 2013	$96.75			(3,726)
2,000	April 1, 2013 to December 31, 2013	$95.00			(1,014)
2,000	July 1, 2013 to December 31, 2013	$97.80			(2,382)
2,000	October 1, 2013 to December 31, 2013	$94.55			(1,873)
3,500	January 1, 2014 to December 31, 2014	$95.89			(3,793)
5,500	January 1, 2014 to June 30, 2014	$95.75			(4,124)
3,750	July 1, 2014 to September 30, 2014	$97.31			(148)
500	July 1, 2014 to December 31, 2014	$99.25			213
2,000	October 1, 2014 to December 31, 2014	$96.45			55
1,000	January 1, 2015 to March 31, 2015	$97.46			266
4,500	January 1, 2013 to December 31, 2013			(20.57)	3,937
2,000	July 1, 2013 to December 31, 2013			(22.38)	1,417
1,000	January 1, 2014 to December 31, 2014			(22.00)	565
2,000	January 1, 2014 to June 30, 2014			(19.55)	2,130
4,000	July 1, 2014 to December 31, 2014			(21.90)	36
2,000	July 1, 2014 to September 30, 2014			(21.95)	2
1,000	January 1, 2015 to December 31, 2015			(19.75)	(1)
3,300	January 1, 2013 to December 31, 2013		$108.03		(243)
1,300	January 1, 2014 to December 31, 2014		$110.00		(630)
Crude oil fair value position					(9,313)

(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	December 31, 2013	January 1, 2014 to December 31, 2014	$US 100.00	$ (481)
2,000	December 31, 2013	January 1, 2014 to June 30, 2014	$C 100.00	$ (1,467)
Crude oil swaption fair value position				$ (1,948)

(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	971
Natural gas fair value position			971

GAIN/LOSS ON DISPOSITIONS

During the three months ended September 30, 2013 the Company disposed of its Jayar property for proceeds of $19.5 million, resulting in a gain of $6.5 million. Jayar was producing approximately 300 boe/d and was 72% natural gas. Proceeds from the Jayar disposition are included in Accounts Receivable at September 30, 2013. The Company disposed of an additional non-core property for net cash proceeds of $2.4 million which resulted in a gain of $2.5 million. No gains or losses on dispositions were recognized in the third quarter of 2012.

During the nine months ended September 30, 2013 the Company disposed of the Jayar property and several other non-core properties for net cash proceeds of $25.8 million ($6.4 million – September 30, 2012). A $2.1 million net gain was recognized on these transactions ($3.0 million gain – September 30, 2012).

DEPLETION, DEPRECIATION & IMPAIRMENT

	Three months ended September 30		Nine months ended September 30	
($000's except per boe amounts)	**2013**	2012	**2013**	2012
Total	**29,303**	23,576	**90,277**	67,207
Total per boe	**19.58**	18.63	**19.70**	17.87

For the three month period ended September 30, 2013, depletion and depreciation of capital assets was $29.3 million or $19.58 per boe compared to $23.6 million or $18.63 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 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 first half of 2013, which was $19.76 per boe.

For the nine month period ended September 30, 2013, depletion and depreciation of capital assets was $90.3 million or $19.70 per boe compared to $67.2 million of $17.87 per boe in the prior year comparative period. The rate per boe has increased from the prior period due to acquisitions in 2012 where the cost per boe was above the Company's historical cost base.

There were no indicators of impairment for Exploration & Evaluation (E&E) assets or impairment of Property & Equipment (PP&E) for the three and nine months ended September 30, 2013.

INCOME TAXES

Deferred tax amounted to a $3.1 million expense for the three month period ended September 30, 2013 compared to $1.6 million expense recovery for the three month period ended September 30, 2012. This expense is the result of income for the quarter and a reduction of losses on unrealized derivative contracts.

Deferred tax expense for the nine month period ended September 30, 2013 amounted to an $9.4 million recovery, as compared to $11.5 million expense for the prior year comparative period. This recovery is the result of losses on unrealized derivative contracts.

The Company has existing tax losses and pools of approximately $512 million at September 30, 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 September 30		Nine months ended September 30	
($000's except per share amounts)	**2013**	2012	**2013**	2012
Net Income (loss)	**8,111**	(7,411)	**(27,605)**	36,912
Net Income (loss) per share	**0.03**	(0.04)	**(0.11)**	0.19

Net and comprehensive income for the three month period ended September 30, 2013 was $8.1 million, compared to a net loss of $7.4 million in the prior year comparative period. This increase was due to gains on disposition of $9.0 million and an unrealized mark-to-market hedging gain. Net and comprehensive income for the nine month period ended September 30, 2013 was net loss of $27.6 million, compared to net income of $36.9 million in the prior year comparative period. This decrease is largely due to an unrealized mark to market hedging loss.

QUARTERLY FINANCIAL SUMMARY

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

($000, except per share amounts)	**Q3 2013**	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011
Average production (boe/d)	**16,263**	16,849	17,254	17,531	13,752	14,193	13,228	7,695
Petroleum and natural gas sales	**117,478**	98,497	71,764	88,673	73,386	70,173	72,497	41,216
Operating netback (per boe) (1)	**26.13**	24.98	24.12	26.27	33.80	28.95	26.71	26.72
Funds flow from operations (2)	**34,899**	33,058	32,423	37,754	38,119	33,762	26,400	16,686
Per share basic	**0.14**	0.13	0.13	0.16	0.19	0.18	0.14	0.12
Per share diluted	**0.14**	0.13	0.13	0.16	0.19	0.17	0.14	0.12
Net income (loss)	**8,111**	(6,082)	(29,633)	(5,381)	(7,411)	29,529	14,983	(37,047)
Per share basic	**0.03**	(0.02)	(0.12)	(0.02)	(0.04)	0.15	0.08	(0.27)
Per share diluted	**0.03**	(0.02)	(0.12)	(0.02)	(0.04)	0.15	0.08	(0.27)
Corporate acquisitions (3)	**–**	–	–	134,972	88,369	–	203,000	–
Capital expenditures (4)	**9,027**	14,871	19,625	37,307	17,183	23,576	8,058	9,842
Total assets	**802,916**	790,056	815,040	845,261	690,240	588,893	583,439	340,664
Net debt excluding financial derivatives	**179,013**	193,750	200,542	201,703	146,843	124,459	126,466	77,169

(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.

Quarterly variances in sales are connected to changes in production volumes and prices. In the first quarter of 2012, the Company added production volumes through the acquisition of Emerge Oil & Gas Inc.. The Company also completed the acquisition of Avalon Exploration Ltd. in Q2 2012, and Waseca Energy in Q4 2012, resulting in increased production into the second half of 2012. Volatile commodity prices in 2013 reduced sales in Q1, but increased sales in Q2, as prices rebounded. In Q3 2013, commodity prices continued to rise and resulted in increased sales.

Through its strategy to protect cash flows and maintain its dividend, Twin Butte hedges a relatively large percentage of production using financial derivatives. As such, commodity price swings in oil have a limited effect on funds flow from operations, as only current quarter realized cash gains or losses are included. Funds flow from operations grew with production throughout 2012, before setbacks at Primate in January. In Q3 2013, funds flow from operations increased slightly from Q1 and Q2 2013, as sales increases were mostly offset by realized losses on financial derivatives.

Quarterly variances in net income, however, are largely driven by non-cash items, such as unrealized gains or losses on derivatives, deferred tax expense or recovery, and gains or losses on asset acquisitions and dispositions. Losses in Q4 2011 relate to impairments in the Pincher Creek, Plains and Deep Basin CGUs. In Q2 2012, net income contains unrealized gains on derivatives. Conversely, in Q1 2013 the net loss was due to unrealized losses on derivatives. In the second quarter of 2013, the Company recorded further unrealized losses on derivatives, and a loss on the sale of a non-core asset. In Q3 2013, net income was due to gains on the sale of Jayar and an additional non-core asset.

DIVIDENDS

In addition to the cash dividend and Dividend Reinvestment Program ("DRIP"), in Q2 2013 Twin Butte initiated a Stock Dividend Program ("SDP"). This program, available to both Canadian and non-Canadian investors, allows shareholders to choose to receive dividends in the form of shares of Twin Butte at a 5% discount to the current weighted average price in lieu of a cash dividend.

For the three months ended September 30, 2013, Twin Butte paid cash dividends of $10.5 million and $1.5 million was invested in Twin Butte shares through the DRIP and SDP, compared to $8.8 million paid in cash dividends and $0.2 million invested in shares in the third quarter of 2012. For the nine months ended September 30, 2013, Twin Butte paid cash dividends of $31.6 million and $4.4 million was invested in Twin Butte shares through the DRIP and SDP. For the comparable period in 2012, Twin Butte paid cash dividends of $26.7 million and $0.2 million was invested in Twin Butte shares.

Cash dividends declared, for the three and nine months ended September 30, 2013, which includes dividends declared and payable on September 30, 2013 and is net of the DRIP and SDP, were $10.8 million and $32.1 million, respectively. In 2012, cash dividends declared for the three and nine months ended September 30, 2012 were $8.9 million and $26.1 million, respectively.

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 September 30		Nine months ended September 30	
(000's except per share amounts)	**2013**	2012	**2013**	2012
Cash flow from operating activities	**12,253**	24,466	**81,577**	84,532
Expenditures on decommissioning liability	**588**	499	**1,832**	656
Change in non-cash working capital	**22,058**	13,154	**16,971**	13,093
Funds flow (1)	**34,899**	38,119	**100,380**	98,281
Funds flow per share	**0.14**	0.19	**0.40**	0.50
Dividends declared	**(12,079)**	(9,404)	**(36,709)**	(26,674)
Capital Expenditures (2)	**(9,027)**	(17,827)	**(43,544)**	(51,133)
Payout ratio (3)	**60%**	71%	**80%**	79%
Reinvested dividends (DRIP and SDP)	**1,297**	540	**4,657**	540
Cash dividends declared	**(10,782)**	(8,861)	**(32,052)**	(26,134)
Total payout ratio (net of DRIP and SDP) (3)	**57%**	70%	**75%**	79%

(1) Funds flow from operations is a non-GAAP measure that represents 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 and SDP) is the Payout ratio, adjusted for dividends paid or reinvested as stock. The DRIP program was initiated with the August dividend payment on September 17, 2012, and the SDP program was initiated in May 2013.

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 and SDP) 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 September 30, 2013, the total payout ratio was 57%. The year-to-date payout ratio for 2013 is 75%. Capital expenditures are net of proceeds on the disposition of Jayar, which reduced the payout ratio in the current quarter and year-to-date. In Q4 2013, the company expects the payout ratio to exceed 100%, as these proceeds are reinvested in the form of capital spending.

Funds flow from operations for the three month period ended September 30, 2013 was $34.9 million, below third quarter 2012 funds flow of $38.1 million, due to increased royalties, cash losses on financial derivatives and increased operating expenses. This represents $0.14 per diluted share compared to $0.19 per diluted share for the same quarter last year and consistent with $0.13 in the second quarter of 2013. The decrease in funds flow per share from the prior year quarter is due to decrease in funds flow, combined with additional shares outstanding.

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

($ per boe)	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011
Petroleum and natural gas sales	78.52	64.24	46.21	54.98	58.01	54.33	60.23	58.22
Royalties	(17.51)	(13.39)	(9.14)	(9.83)	(11.40)	(12.84)	(14.52)	(11.42)
Cash gain (loss) on financial derivatives	(10.87)	0.01	11.26	4.83	8.02	6.91	2.10	(1.16)
Operating expense	(21.53)	(22.92)	(21.88)	(19.73)	(18.38)	(17.19)	(18.62)	(16.96)
Transportation expense	(2.48)	(2.96)	(2.33)	(2.82)	(2.45)	(2.26)	(2.48)	(1.96)
Operating netback (1)	26.13	24.98	24.12	27.43	33.80	28.95	26.71	26.72
General and administrative expense	(1.62)	(2.05)	(2.21)	(2.07)	(2.22)	(1.57)	(2.03)	(2.18)
Transaction costs	–	–	(0.03)	(0.76)	(0.62)	(0.20)	(1.63)	–
Interest and bank charges	(1.18)	(1.37)	(1.00)	(1.18)	(1.00)	(1.05)	(1.13)	(0.97)
Funds flow from operations (2)	23.33	21.56	20.88	23.42	29.96	26.13	21.92	23.57

(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 September 30		Nine months ended September 30	
($000's)	**2013**	2012	**2013**	2012
Land acquisition	**271**	651	**1,323**	2,207
Geological and geophysical	**1,143**	218	**2,197**	443
Drilling and completions	**17,587**	10,448	**44,933**	27,211
Equipping and facilities	**10,803**	5,276	**21,374**	9,831
Other	**900**	1,234	**2,662**	4,030
Development capital	**30,704**	17,827	**72,489**	43,722
Property acquisitions - Cash paid	**370**	–	**370**	14,181
Property dispositions - Cash received	**(22,047)**	–	**(29,315)**	(6,770)
Capital expenditures (1)	**9,027**	17,827	**43,544**	51,133
Net other additions to PP&E (2)	**(20,296)**	2,176	**(22,679)**	7,228
Corporate acquisition additions to PP&E	**–**	88,369	**–**	291,369
Total net additions to PP&E	**(11,269)**	108,372	**20,865**	349,730

(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 third quarter of 2013, the Company invested $30.7 million on development capital. The Company's development capital expenditures for the quarter were focused on heavy oil areas, with successful drilling of 9 (9.0 net) oil wells at Wildmere; 5 (5.0 net) wells at Swimming; 4 (4.0 net) wells at each of Celtic and Lashburn; and 6 (6.0 net) wells at various other heavy oil properties.

The Company completed property dispositions for cash proceeds of $22.0 million during the quarter and property acquisitions for $0.4 million. In the third quarter of 2012, the Company completed the corporate acquisition of Avalon.

For the nine months ended September 30, 2013, the Company completed property dispositions for cash proceeds of $29.3 million and property acquisitions for $0.4 million. During the comparable period in 2012, the company completed the corporate acquisitions of Emerge and Avalon, a property acquisition in the Swimming area, and dispositions for proceeds of $6.8 million.

Drilling Results

Three months ended September 30	**2013**		2012	
	Gross	**Net**	Gross	Net
Crude oil	**28**	**28**	24	18.0
Dry and abandoned	**3**	**3**	–	–
Total	**31**	**31**	24	18.0
Success rate (%)		**90%**		100%

	2013		2012	
Nine months ended September 30	**Gross**	**Net**	Gross	Net
Crude oil	**65**	**65**	71	53.2
Dry and abandoned	**6**	**6**	1	1.0
Total	**71**	**71**	72	54.2
Success rate (%)		**92%**		98%

Undeveloped Land

The Company's undeveloped land holdings have decreased from the December 31, 2012, as conversions from drilling, dispositions and expiries were greater than purchases.

	At September 30, 2013	At December 31, 2012
Gross Acres	**871,067**	1,007,256
Net Acres	**333,113**	455,990

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, specifically the non-GAAP measure of net debt. Funds flow from operations represents cash flow from operating activities adjusted for expenditures on decommissioning activities and changes in non-cash operating working capital. Net debt is defined as the total of bank indebtedness, account payable, accrued liabilities, and cash dividends payable, less the total of accounts receivable, deposits and prepaids. Twin Butte considers this ratio to be a key measure of liquidity.

	Three months ended September 30		Nine months ended September 30	
(000's)	**2013**	2012	**2013**	2012
Funds flow (1)	**34,899**	38,119	**100,380**	98,281
Annualized funds flow (2)	**139,596**	152,476	**133,840**	131,041
Net debt (3)	**179,012**	146,843	**179,012**	146,843
Net debt to annualized funds flow (4)	**1.3**	1.0	**1.3**	1.1

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

(2) Funds flow from operations - annualized is a non-GAAP measures that represents funds flow for the period, multiplied to represent 12 months.

(3) Net Debt is a non-GAAP measure representing the total of bank indebtedness, accounts payable, accrued liabilities and cash dividend payable, less the total of accounts receivable, deposits and prepaids.

(4) The ratio of net debt to funds flow – annualized is a non-GAAP measure that represents the liquidity of the Company. This ratio is calculated as net debt divided by annualized funds flow.

For the three months ended September 30, 2013, the annualized net debt to funds flow ratio was 1.3, an increase from the prior year quarter, which was 1.0. This increase is driven by a slight decrease in funds flow and an increase in net debt. For the nine months ended September 30, 2013, the annualized net debt to funds flow ratio was also 1.3, compared to the prior year period of 1.1. This increase is due to increased net debt.

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 an undrawn portion of $100 million on the Company's dedicated credit facility of $280 million.

As at September 30, 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 was completed in May 2013 and the expiry of the current annual revolving period is April 29, 2014. In connection with the acquisition of Black Shire Energy Inc. on November 5, 2013, this facility was increased to $400 million. Additional information on this acquisition is detailed in the subsequent events section of this MD&A.

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 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. Covenants on this facility include a current ratio of 1:1, which is adjusted to include the undrawn portion of the credit facility as a current asset. Due to the undrawn portion on the credit facility, as well as positive cash provided by operating activities, the Company believes it has the ability to meet its current obligations.

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

SHARE CAPITAL

In the third quarter of 2013, 218,288 vested share awards and 99,944 vested performance share awards were exercised, resulting in the issuance of 318,232 shares. For the nine months ended September 30, 2013, 965,589 vested share awards and 652,141 performance share awards were exercised, resulting in the issuance of 1,617,730 shares. As of November 14, 2013 the Company has 342,099,518 Common Shares, 665,434 stock options and 5,414,680 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 $95.9 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 September 30, 2013	Less than one year	One to three years	Three to five years	Total
Derivative liability	19,197	1,418	–	20,615
Bank indebtedness – principal (1)	–	179,797	–	179,797
Bank indebtedness – interest	7,192	7,192	–	14,384
Other (2)	1,189	3,541	797	5,527
	27,578	191,948	797	220,323

(1) Repayment of this principal amount in one to three years is based on the revolving debt agreement currently in place and does not consider the annual review for extension. The next review is scheduled for April 2014, 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 September 30, 2013, the Company incurred costs totaling $2.0 million ($1.5 million – September 30, 2012) for oilfield services and legal counsel rendered by three companies of which an officer and director of Twin Butte is a director. During the nine month period ended September 30, 2013, the Company incurred related party costs totaling $5.1 million ($4.9 million – September 30, 2012).

These costs were incurred in the normal course of business and were recorded at the amount exchanged between the parties. As at September 30, 2013, the Company had $0.5 million ($4.3 million – December 31, 2012) included in accounts payable and accrued liabilities related to these transactions.

SUBSEQUENT EVENTS

Purchase of Black Shire Energy Inc.

On November 5, 2013, Twin Butte completed the business combination of Black Shire Energy Inc. ("Black Shire"), which provides for the acquisition by Twin Butte of all the issued and outstanding common shares of Black Shire for a combination of $2.00 in cash and 0.679 Twin Butte common shares for each Black Shire share, totaling $155 million in cash and 54,012,276 common shares of Twin Butte. The initial accounting for the business combination is incomplete, as the Company is in the process of evaluating the fair value of the assets acquired under IFRS in order to prepare the purchase price equation for recognition, measurement and presentation.

In conjunction with the purchase of Black Shire, the Company has also issued subscription receipts for 35,898,000 shares at a price of $1.95 per Twin Butte share for gross proceeds of $70 million. This issuance closed on October 30, 2013.

Upon closing of the Black Shire acquisition, the Company completed an update to its bank facility with a syndicate of banks. The Company's lenders have increased the Company's total bank facility to $400 million, specifically including a revolving line of credit of $375 million, and an operating line of credit of $25 million. The applicable pricing grid associated with the updated facility is unchanged.

Natural Gas Sales Price Derivative Contracts

Subsequent to September 30, 2013 the Company entered into a natural gas price derivative contract. The giga-joules per day and price for this contract are as follows:

Daily giga-joule (GJ) quantity	Term of contract	Fixed price per GJ AECO daily
2,000	January 1, 2014 to December 31, 2014	$3.40

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 11 – measurement of decommissioning provision;
- Note 12 – measurement of share-based compensation; and
- Note 17 – 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 and nine months ended September 30, 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 and nine months ended September 30, 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 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 September 30, 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 September 30, 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.

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	September 30, 2013	December 31, 2012
ASSETS			
Current Assets			
Accounts receivable		$ 64,184	$ 42,497
Deposits and prepaid expenses		5,509	4,233
Derivative assets	4	9,635	32,022
		79,328	78,752
Non-current Assets			
Derivative assets	4	690	–
Exploration and evaluation	5	56,378	65,779
Property and equipment	6	635,118	669,328
Goodwill		31,402	31,402
		$ 802,916	$ 845,261
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities		$ 64,875	$ 60,822
Dividend payable		4,033	3,350
Derivative liabilities	4	19,197	2,821
		88,105	66,993
Non-current Liabilities			
Derivative liabilities	4	1,418	1,994
Bank indebtedness	7	179,797	184,261
Deferred taxes		22,086	31,521
Decommissioning provision	8	95,890	88,991
		387,296	373,760
Shareholders' Equity			
Share capital	9	531,314	523,226
Contributed surplus		7,969	7,624
Deficit		(123,663)	(59,349)
		415,620	471,501
		$ 802,916	$ 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)

(unaudited - Cdn$ thousands except per share amounts)	*Note*	Three months ended September 30 **2013**	Three months ended September 30 2012	Nine months ended September 30 **2013**	Nine months ended September 30 2012
Petroleum and natural gas sales		**$ 117,478**	$ 73,386	**$ 287,739**	$ 216,056
Royalties		**(26,193)**	(14,419)	**(60,906)**	(48,476)
Revenues		**$ 91,285**	$ 58,967	**$ 226,833**	$ 167,580
Expenses					
Operating		**32,217**	23,250	**101,339**	67,856
Transportation		**3,713**	3,098	**11,876**	8,999
General and administrative	*10*	**2,428**	2,803	**9,000**	7,270
Transaction costs		**–**	782	**55**	3,006
Share-based payments	*9*	**708**	892	**3,283**	2,838
Finance expense	*11*	**2,376**	1,507	**7,176**	4,901
Loss (gain) on derivatives	*4*	**14,960**	11,591	**36,264**	(35,603)
Exploration and evaluation expense	*5*	**3,413**	508	**10,007**	2,664
Loss (gain) on disposition of property and equipment	*6*	**(8,988)**	–	**(2,142)**	(2,997)
Loss (gain) on disposition of exploration asset	*5*	**(54)**	–	**(3,262)**	–
Negative goodwill		**–**	–	**–**	(6,991)
Depletion and depreciation	*6*	**29,303**	23,576	**90,277**	67,207
		80,076	68,007	**263,873**	119,150
Income (loss) before income taxes		**11,209**	(9,040)	**(37,040)**	48,430
Deferred tax expense (recovery)		**3,098**	(1,629)	**(9,435)**	11,518
Net income (loss) and comprehensive income (loss)		**$ 8,111**	$ (7,411)	**$ (27,605)**	$ 36,912
Net Income (Loss) per share $					
Basic	*9*	**0.03**	(0.04)	**(0.11)**	0.19
Diluted	*9*	**0.03**	(0.04)	**(0.11)**	0.19

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

STATEMENT OF CASH FLOWS

		Three months ended September 30		Nine months ended September 30	
(unaudited - Cdn$ thousands)	*Note*	**2013**	2012	**2013**	2012
Cash provided by (used in):					
OPERATING ACTIVITIES:					
Net income (loss)		**$ 8,111**	$ (7,411)	**$ (27,605)**	$ 36,912
Adjustments for items not involving cash:					
Depletion and depreciation	*6*	**29,303**	23,576	**90,277**	67,207
Deferred tax expense (recovery)		**3,098**	(1,629)	**(9,435)**	11,518
Unrealized (gain) loss on derivatives	*4*	**(1,300)**	21,736	**29,553**	(13,999)
Finance expenses	*11*	**2,376**	1,507	**7,176**	4,901
Interest paid	*11*	**(1,768)**	(1,061)	**(5,415)**	(3,773)
Share-based payments	*9*	**708**	892	**3,283**	2,838
Exploration and evaluation expenses	*5*	**3,413**	509	**10,007**	2,665
Gain on disposition of property and equipment	*6*	**(8,988)**	–	**(2,142)**	(2,997)
Gain on disposition of exploration asset	*5*	**(54)**	–	**(3,262)**	–
Negative goodwill		**–**	–	**–**	(6,991)
Cash premiums on derivatives	*4*	**–**	–	**7,943**	–
Expenditures on decommissioning provision	*8*	**(588)**	(499)	**(1,832)**	(656)
Changes in non-cash working capital	*12*	**(22,058)**	(13,154)	**(16,971)**	(13,093)
		12,253	24,466	**81,577**	84,532
FINANCING ACTIVITIES					
Increase (decrease) in bank indebtedness	*7*	**4,588**	(7,354)	**(4,464)**	(30,051)
Issuance of share capital on exercise of stock options	*9*	**–**	41	**–**	153
Dividends paid		**(10,528)**	(8,861)	**(31,632)**	(26,131)
		(5,940)	(16,174)	**(36,096)**	(56,029)
INVESTING ACTIVITIES					
Expenditures on property and equipment		**(29,771)**	(16,724)	**(69,659)**	(50,653)
Expenditures on exploration and evaluation assets		**(1,303)**	(644)	**(3,199)**	(2,183)
Proceeds on disposition of property and equipment	*6*	**21,952**	–	**25,770**	6,355
Proceeds on disposition of exploration and evaluation assets	*5*	**95**	–	**3,545**	482
Changes in non-cash working capital	*12*	**2,714**	9,076	**(1,938)**	17,496
		(6,313)	(8,292)	**(45,481)**	(28,503)
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

		Three months ended September 30		Nine months ended September 30	
(unaudited - Cdn$ thousands)	*Note*	**2013**	2012	**2013**	2012
Share capital					
Balance, beginning of period		**$ 529,057**	$ 367,058	**$ 523,226**	$ 227,520
Common shares issued for Emerge acquisition		**–**	–	**–**	134,264
Common shares issued for Avalon acquisition		**–**	65,314		65,314
Common shares issued pursuant to the DRIP and SDP	*9*	**1,533**	209	**4,395**	209
Common shares issued under employee and option plan	*9*	**724**	302	**3,693**	5,576
Balance, end of period		**$ 531,314**	$ 432,883	**$ 531,314**	$ 432,883
Contributed surplus					
Balance, beginning of period		**$ 7,873**	$ 4,893	**$ 7,624**	$ 7,506
Share-based payments for awards exercised		**(724)**	(261)	**(3,693)**	(6,005)
Share-based payments for awards granted		**820**	1,351	**4,038**	4,482
Balance, end of period		**$ 7,969**	$ 5,983	**$ 7,969**	$ 5,983
Deficit					
Balance, beginning of period		**$ (119,695)**	$ (26,577)	**$ (59,349)**	$ (53,630)
Dividends		**(12,079)**	$ (9,404)	**$ (36,709)**	$ (26,674)
Net income (loss) and comprehensive income (loss)		**8,111**	(7,411)	**(27,605)**	36,912
Balance, end of period		**$ (123,663)**	$ (43,392)	**$ (123,663)**	$ (43,392)

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

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

For the periods ended September 30, 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 November 14, 2013.

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

There were no new or amended standards issued during the three and nine months ended September 30, 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.

i) *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.

ii) *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.

iii) *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 September 30, 2013, the carrying amounts reported on the Balance Sheet approximated 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 and nine months ended September 30, 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 September 30		Nine months ended September 30	
	2013	2012	**2013**	2012
Realized gain (loss)	**(16,260)**	10,145	**(6,711)**	21,604
Unrealized gain (loss)	**1,300**	(21,736)	**(29,553)**	13,999
Gain (loss) on derivatives	**(14,960)**	(11,591)	**(36,264)**	35,603

During the nine months ended September 30, 2013, the Company also realized $7.9 million of cash premiums received for selling crude oil swaption derivative contracts (September 30, 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	Sept 30, 2013	Dec 31, 2012
Current asset	**9,635**	32,022
Non-current asset	**690**	–
Current liability	**(19,197)**	(2,821)
Non-current liability	**(1,418)**	(1,994)
Net derivative asset (liability) position	**(10,290)**	27,207

Derivative Summary

As at	Sept 30, 2013	Dec 31, 2012
Crude oil sales price derivatives	**(9,313)**	22,915
Crude oil swaption derivatives	**(1,948)**	–
Natural gas sales price derivatives	**971**	4,292
Net derivative asset (liability) position	**(10,290)**	27,207

Crude Oil Sales Price Derivatives

Daily barrel (bbl) quantity	Term of contract	WTI(1) fixed price per bbl ($CAD)	Fixed written call price per bbl WTI (1) ($USD)	Fixed price per bbl WCS (2) vs. WTI (1) ($CAD)	Fair market value $ 000's
4,500	January 1, 2013 to December 31, 2013	$ 96.75			(3,726)
2,000	April 1, 2013 to December 31, 2013	$ 95.00			(1,014)
2,000	July 1, 2013 to December 31, 2013	$ 97.80			(2,382)
2,000	October 1, 2013 to December 31, 2013	$ 94.55			(1,873)
3,500	January 1, 2014 to December 31, 2014	$ 95.89			(3,793)
5,500	January 1, 2014 to June 30, 2014	$ 95.75			(4,124)
3,750	July 1, 2014 to September 30, 2014	$ 97.31			(148)
500	July 1, 2014 to December 31, 2014	$ 99.25			213
2,000	October 1, 2014 to December 31, 2014	$ 96.45			55
1,000	January 1, 2015 to March 31, 2015	$ 97.46			266
4,500	January 1, 2013 to December 31, 2013			(20.57)	3,937
2,000	July 1, 2013 to December 31, 2013			(22.38)	1,417
1,000	January 1, 2014 to December 31, 2014			(22.00)	565
2,000	January 1, 2014 to June 30, 2014			(19.55)	2,130
4,000	July 1, 2014 to December 31, 2014			(21.90)	36
2,000	July 1, 2014 to September 30, 2014			(21.95)	2
1,000	January 1, 2015 to December 31, 2015			(19.75)	(1)
3,300	January 1, 2013 to December 31, 2013		$ 108.03		(243)
1,300	January 1, 2014 to December 31, 2014		$ 110.00		(630)
Crude oil fair value position					(9,313)

(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	December 31, 2013	January 1, 2014 to December 31, 2014	$US 100.00	$ (481)
2,000	December 31, 2013	January 1, 2014 to June 30, 2014	$C 100.00	$ (1,467)
Crude oil swaption fair value position				$ (1,948)

(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	971
Natural gas fair value position			971

(b) Capital management

Twin Butte's capital structure as at September 30, 2013 and December 31, 2012 is as follows:

	Sept 30, 2013	Dec 31, 2012
Bank indebtedness	**179,797**	184,261
Working capital deficit (surplus) (1)	**(785)**	17,442
Net debt (2)	**179,012**	201,703
Shareholders' Equity	**415,620**	471,501
Net Debt to Equity (2)	**0.43**	0.43

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

(2) Net debt and net debt to equity are non-GAAP measures. Net debt is defined as the total of bank indebtedness, accounts payables and accrued liabilities, cash dividend payable, less accounts receivables, deposits and prepaids, whereas net debt to equity is the ratio of net debt compared to equity.

As at September 30, 2013, the Company utilized $179.8 million of its dedicated credit facility. The working capital surplus of $0.8 million and bank debt of $179.8 million resulted in $179.0 million of net debt (December 31, 2012 - $201.7 million). The debt to equity level at both September 30, 2013 and December 31, 2012 was constant, at 0.43.

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	(5,038)
Balance at December 31, 2012	$ 65,779
Acquisitions and purchases	$ 3,510
Transferred to property, plant and equipment (note 6)	(1,378)
Dispositions	(1,526)
Exploration and evaluation expense	(10,007)
Balance at September 30, 2013	**$ 56,378**

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 nine month period ended September 30, 2013, E&E expense includes $9.6 million ($2.7 million – September 30, 2012) for current and future land expiries for which management has neither budgeted nor planned further exploration.

During the nine months ended September 30, 2013, Twin Butte completed the sale of several non-core E&E assets in Alberta for net proceeds of $3.5 million ($nil – September 30, 2012). A $3.3 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	69,939	–	69,939
Acquisitions	423	–	423
Changes in decommissioning provision	10,513	–	10,513
Transfers from E&E assets (note 5)	1,378	–	1,378
Disposals	(61,388)	–	(61,388)
Balance at September 30, 2013	**$ 913,200**	**$ 219**	**$ 913,419**
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	90,277	–	90,277
Impairment expense	–	–	–
Disposals	(35,202)	–	(35,202)
Balance at September 30, 2013	**$ 278,082**	**$ 219**	**$ 278,301**
Net Carrying Value:			
December 31, 2012	669,328	–	669,328
September 30, 2013	**635,118**	**–**	**635,118**

The Company capitalized $2.7 million of general and administrative expenses ($2.3 million – September 30, 2012) and $0.8 million of share based compensation expenses ($1.7 million – September 30, 2012) directly related to development and production activities for the nine months ended September 30, 2013.

Future development costs on proved plus probable undeveloped reserves of $301 million as at September 30, 2013 are included in the calculation of depletion ($216 million – September 30, 2012).

On September 30, 2013, Twin Butte completed the sale of its Jayar property. Located in the Deep Basin CGU, this property was sold for proceeds of $19.5 million and the Company recorded a gain of $6.5 million on the disposition. During the three months ended September 30, 2013, Twin Butte also completed the sale of a non-core property for net proceeds of $2.4 million ($nil – September 30, 2012). A $ 2.5 million gain was recognized on this transaction ($nil – September 30, 2012).

During the nine months ended September 30, 2013, Twin Butte completed the sale of Jayar and several other non-core properties for net proceeds of $25.8 million ($6.4 million – September 30, 2012). A $2.1 million gain was recognized on these transactions ($3.0 million gain – September 30, 2012).

There were no indicators of PP&E impairment for the three and nine months ended September 30, 2013.

NOTE 7. BANK INDEBTEDNESS

At September 30, 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 was completed in May 2013, with the current revolving period scheduled for expiry on April 29, 2014. As detailed in Note 15 – Subsequent Events, this facility was increased to $400 million in connection with the acquisition of Black Shire Energy Inc. on November 5, 2013.

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 September 30, 2013 was 4.0% (2.4% – September 30, 2012). As at September 30, 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 $95.9 million at September 30, 2013 ($89.0 million – December 31, 2012), based on a total future liability of $140.1 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 Sept 30, 2013	Year ended Dec 31, 2012
Decommissioning provision, beginning of period	**88,991**	38,401
Liabilities incurred	**3,079**	3,195
Liabilities settled	**(1,832)**	(1,140)
Liabilities acquired from acquisitions	**129**	36,748
Liabilities reduced from dispositions	**(3,543)**	(378)
Effect of change in risk free rate (1)	**–**	16,187
Revisions in estimated cash outflows	**7,305**	(5,645)
Accretion of decommissioning provision	**1,761**	1,623
Decommissioning provision, end of period	**95,890**	88,991

(1) For 2012, 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	0
Balance at December 31, 2012	248,312	523,226
Common shares issued under share award plan	1,617	3,693
Common shares issued pursuant to the DRIP and SDP	2,130	4,395
Balance at September 30, 2013	**252,059**	**531,314**

During the nine months ended September 30, 2013, 1.6 million share and performance share awards and nil options were exercised by employees, resulting in the granting of 1.6 million shares.

The total number of shares reserved for Share-based payments is 25,205,915 (24,831,200 – December 31, 2012). As at September 30, 2013 there were 5,436,540 common share awards, including reinvested dividends (4,199,716 – December 31, 2012) and 782,101 (895,434 – December 31, 2012) options outstanding under the plans or a total of 2% of outstanding shares.

Dividends declared during the nine months ended September 30, 2013 totaled $36.7 million ($26.7 million – September 30, 2012), equivalent to $0.147 per weighted-average share ($0.135 per weighted average share – September 30, 2012). Of these dividends declared, $3.5 million were reinvested in shares through the dividend reinvestment program ("DRIP"), and $0.5 million were declared through the Stock Dividend Program ("SDP"). In the nine months ended September 30, 2012, $0.5 million was reinvested in shares through the DRIP. Initiated in May 2013, the SDP allows shareholders to choose to receive dividends in the form of shares of Twin Butte at a 5% discount to the current weighted average price in lieu of a cash dividend.

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 September 30, 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	1,844,292	2.26	1,069,157	2.16
Reinvested dividends	215,740	2.31	125,503	2.47
Vested and converted to common shares	(965,589)	1.89	(652,141)	2.49
Forfeited	(239,542)	2.52	(160,596)	2.56
Outstanding at September 30, 2013	**3,336,858**	**$ 2.29**	**2,099,682**	**$ 2.36**

Twin Butte recorded share-based payment expense of $0.7 million for the three months ended September 30, 2013 (September 30, 2012 – $0.9 million). Share-based payment expense for the nine months ended September 30, 2013 was $3.3 million (September 30, 2012 – $2.8 million).

A 15% forfeiture rate were used to estimate the Company's share-based payment expense for the three months ended September 30, 2013 (September 30, 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.

As at December 31, 2012, there were 895,434 options outstanding at a weighted average exercise price of $2.65. In the nine months ended September 30, 2013, no stock options were granted or exercised, and 113,333 stock options were forfeited at a weighted average exercised price of $2.52. As at September 30, 2013 there were 782,101 options outstanding at a weighted average exercise price of $2.66. There were 552,568 options exercisable as at September 30, 2013 (279,699 – December 31, 2012) at an average exercise price of $2.65 per share ($2.60 – December 31, 2012).

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

	September 30, 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**	**1.15**	10,000	0.98	1.89
$1.25 – 1.51	**11,667**	**1.31**	**1.51**	11,667	1.31	2.26
$1.52 – 3.32	**760,434**	**2.71**	**2.63**	873,767	2.68	3.39
	782,101	**2.66**	**2.59**	895,434	2.65	3.36

Net Income (loss) Per Share

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

	Three months ended September 30		Nine months ended September 30	
	2013	2012	**2013**	2012
Net income (loss) for the period	**$ 8,111**	$ (7,411)	**$ (27,605)**	$ 36,912
Weighted average number of basic shares *(000's)*	**250,950**	201,321	**250,400**	193,058
Effect of dilutive securities:				
Stock options and share awards *(000's)*	**1,335**	–	**–**	1,120
Weighted average number of diluted shares *(000's)*	**252,285**	201,321	**250,400**	194,178
Net income (loss) per share basic ($)	**0.03**	(0.04)	**(0.11)**	0.19
Net income (loss) per share diluted ($)	**0.03**	(0.04)	**(0.11)**	0.19

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

In calculating the weighted average number of diluted shares for the three months ended September 30, 2013, we excluded 760,434 share options because their exercise price was greater than the average common share market price in the year. Also excluded were 1,376,176 unvested share awards because their compensation expense attributed to future services was greater than the average common share market price. Due to the net loss for nine months ended September 30, 2013, 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 and nine months ended September 30, 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 September 30		Nine months ended September 30	
	2013	2012	**2013**	2012
Staff salaries and benefits	**$ 2,722**	$ 2,644	**$ 8,775**	$ 6,734
Rent and insurance	**278**	224	**769**	799
Office and other costs	**1,250**	1,326	**4,492**	3,821
Capitalized G&A	**(900)**	(775)	**(2,662)**	(2,339)
Capitalized overhead recoveries	**(922)**	(616)	**(2,374)**	(1,745)
	$ 2,428	$ 2,803	**$ 9,000**	$ 7,270

NOTE 11. FINANCE EXPENSE

	Three months ended September 30		Nine months ended September 30	
	2013	2012	**2013**	2012
Accretion on decommissioning provision	**$ 608**	$ 446	**$ 1,761**	$ 1,128
Interest and bank charges	**1,768**	1,061	**5,415**	3,773
Total	**$ 2,376**	$ 1,507	**$ 7,176**	$ 4,901

NOTE 12. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended September 30		Nine months ended September 30	
	2013	2012	**2013**	2012
Changes in non-cash working capital:				
Accounts receivable	**$ (23,156)**	$ (5,420)	**$ (21,687)**	$ 1,723
Deposits and prepaid expenses	**723**	(2,502)	**(1,275)**	(3,130)
Accounts payable and accrued liabilities	**3,089**	3,473	**4,053**	2,553
Dividends Payable	**18**	371	**683**	3,257
	$ (19,326)	$ (4,078)	**$ (18,226)**	$ 4,403
Changes in non-cash working capital relating to:				
Operating activities	**$ (22,058)**	$ (13,154)	**$ (16,971)**	$ (13,093)
Financing activities	**18**	371	**683**	3,257
Investing activities	**2,714**	8,705	**(1,938)**	14,239
	$ (19,326)	$ (4,078)	**$ (18,226)**	$ 4,403

NOTE 13. RELATED PARTY TRANSACTIONS

During the three month period ended September 30, 2013, the Company incurred costs totaling $2.0 million ($1.5 million – September 30, 2012) for oilfield services and legal counsel rendered by three companies of which an officer and director of Twin Butte is a director. During the nine month period ended September 30, 2013, the Company incurred related party costs totaling $5.1 million ($4.9 million – September 30, 2012).

These costs were incurred in the normal course of business and were recorded at the amount exchanged between the parties. As at September 30, 2013, the Company had $0.5 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
	303	1,182	1,173	1,175	1,196	498	–

NOTE 15. SUBSEQUENT EVENTS

Purchase of Black Shire Energy Inc.

On November 5, 2013, Twin Butte completed the business combination of Black Shire Energy Inc. ("Black Shire"), which provides for the acquisition by Twin Butte of all the issued and outstanding common shares of Black Shire for a combination of $2.00 in cash and 0.679 Twin Butte common shares for each Black Shire share, totaling $155 million in cash and 54,012,276 common shares of Twin Butte. The initial accounting for the business combination is incomplete, as the Company is in the process of evaluating the fair value of the assets acquired under IFRS in order to prepare the purchase price equation for recognition, measurement and presentation.

In conjunction with the purchase of Black Shire, the Company has also issued subscription receipts for 35,898,000 shares at a price of $1.95 per Twin Butte share for gross proceeds of $70 million. This issuance closed on October 30, 2013.

Upon closing of the Black Shire acquisition, the Company completed an update to its bank facility with a syndicate of banks. The Company's lenders have increased the Company's total bank facility to $400 million, specifically including a revolving line of credit of $375 million, and an operating line of credit of $25 million. The applicable pricing grid associated with the updated facility is unchanged.

Natural Gas Sales Price Derivative Contract

Subsequent to September 30, 2013 the Company entered into a natural gas price derivative contract for the period of January 1, 2014 to December 31, 2014. The Company will swap 2,000 giga-joules (GJ) per day of Natural Gas at a fixed price of $3.40 per GJ, based on AECO daily pricing.

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

HEAD OFFICE

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Chartered Accountants
Calgary, AB

BANKERS

National Bank of Canada
Calgary, AB

SOLICITORS

Burnet, Duckworth & Palmer LLP
Calgary, AB

ENGINEERS

McDaniel & Associates Consultants Ltd.
Calgary, AB

REGISTRAR & TRANSFER AGENT

Valiant Trust Company
Calgary, AB

STOCK EXCHANGE LISTING

TSX
Trading Symbol "TBE"

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