TWIN BUTTE ENERGY LTD.

2014

FIRST QUARTER REPORT

HIGHLIGHTS

	Three months ended March 31		
	2014	2013	% Change
FINANCIAL *($000's, except per share amounts)*			
Petroleum and natural gas sales	**149,200**	69,660	114%
Funds flow (1)	**51,384**	32,423	58%
Per share basic	**0.15**	0.13	15%
Per share diluted	**0.15**	0.13	15%
Net income (loss)	**(15,240)**	(29,633)	49%
Per share basic	**(0.04)**	(0.12)	67%
Per share diluted	**(0.04)**	(0.12)	67%
Dividends declared	**16,550**	12,603	31%
Dividends declared, Post DRIP	**14,897**	11,350	31%
Capital expenditures (2)	**37,890**	19,625	93%
Net debt (3)	**363,659**	200,542	81%
OPERATING			
Average daily production			
Heavy crude oil (bbl per day)	**12,682**	13,890	-9%
Light & Medium crude oil (bbl per day)	**7,614**	783	872%
Natural gas (Mcf per day)	**12,200**	13,907	-12%
Natural gas liquids (bbl per day)	**200**	263	-24%
Barrels of oil equivalent (boe per day, 6:1)	**22,529**	17,254	31%
% Oil and NGLs	**91%**	87%	5%
Average sales price			
Heavy crude oil ($ per bbl)	**73.81**	47.16	57%
Light & Medium crude oil ($ per bbl)	**82.73**	67.36	23%
Natural gas ($ per Mcf)	**6.08**	3.35	81%
Natural gas liquids ($ per bbl)	**88.18**	75.04	18%
Barrels of oil equivalent ($ per boe, 6:1)	**73.58**	44.86	64%
Operating netback ($ per boe) (4)			
Petroleum and natural gas sales	**73.58**	44.86	64%
Cash (loss) gain on derivative instruments	**(8.71)**	11.26	-177%
Royalties	**(12.41)**	(9.14)	-36%
Operating expenses	**(22.81)**	(21.88)	-4%
Transportation expenses	**(0.93)**	(0.98)	5%
Operating netback	**28.72**	24.12	19%
Wells drilled			
Gross	**34.0**	28.0	21%
Net	**34.0**	28.0	21%
Success (%)	**94**	89	6%
COMMON SHARES			
Shares outstanding, end of period	**345,071,217**	249,797,912	38%
Weighted average shares outstanding – diluted	**344,452,929**	250,435,239	38%

(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 SUCCESSFUL FIRST QUARTER 2014 ARE AS FOLLOWS:

- Record average first quarter production of 22,529 boe/d which is up by 31% from first quarter 2013 while increasing the oil and liquids weighting to 91% from 87%.
- Record first quarter funds flow of $51.4 million, or $0.15 per share, which is up 58% from first quarter 2013.
- Completed an organic capital program of $37.9 million including the drilling of 34 gross (34 net) wells at a 94% success rate. Over 70% of the first quarter capital plan was focused on horizontal drilling activity with 60% of the plan focused at the Company's medium oil Provost property.
- Reinforced the sustainability of the dividend model by holding the total payout ratio for the quarter to 103%. Twin Butte has paid $96.7 million ($0.422 per share) in dividends since January 2012 and maintained a cumulative all-in payout ratio of 92% since that time.

CORPORATE

During the first quarter, Twin Butte completed the successful integration of its fourth quarter 2013 acquisition of Black Shire Energy Inc., which provides the Company with a significant medium oil presence in the Provost area. The subject acquisition progressed and strengthened the Company's business model of delivering a long term stable dividend with moderate production growth. Continued strong financial discipline combined with positive early drilling results at the Company's Provost operation will help support the Company's successful transition to a horizontal medium and heavy oil exploiter from its historical heavy oil vertical drilling business plan. Twin Butte's strategic shift from vertical to horizontal drilling activity began in 2013 and continues in 2014 with over 70% of first quarter's capital focused on horizontal activity. The Company anticipates that this strategic shift will accelerate for the balance of 2014, with substantially all of the remaining 2014 drilling weighted to horizontal activity. This shift is designed to significantly improve Twin Butte's corporate sustainability by increasing its corporate netback, decreasing its longer term corporate decline rate while adding a sizeable drilling inventory with capital efficiencies comparable to Twin Butte's historical vertical heavy oil drilling inventory.

FINANCIAL

Twin Butte's record first quarter 2014 financial and operating results demonstrate the Company's ability to pay a sustainable dividend and maintain a strong balance sheet while completing a disciplined capital plan. In the first quarter of 2014 the Company paid $16.5 million in dividends ($14.9 million post DRIP & SDP) which when combined with net $37.9 million in organic capital spending generated an all-in payout ratio of 103%. Over the past 2.25 years the Company has paid out $96.7 million in dividends, or $0.422 per share, and maintained a cumulative all-in payout ratio of 92%.

Funds flow in the first quarter increased significantly (58%) from 2013 reaching $51.4 million or $0.15 per share. Strengthening Canadian oil prices combined with a contraction in the differential between light and heavy oil prices lead to strong WCS (Western Canadian select heavy oil index) pricing in the quarter of $84.44 per bbl as compared to a fourth quarter 2013 average of $69.62 per bbl. Approximately 40% of the Company's heavy oil production was sold to rail car accessed markets in the first quarter, enhancing the Company's heavy oil pricing while providing additional marketing options.

Operating cost pressures on the Company's heavy oil continued through the first quarter of 2014 with power and propane costs increasing materially from the fourth quarter of 2013; however, both of these costs have shown improving trends more recently. The Company was pleased its Provost area operating costs were as budgeted in the first quarter of 2014 at approximately $18.00 per boe, partially as a result of power hedges designed to reduce some power cost variability.

Although differentials have significantly contracted in early 2014, Twin Butte anticipates continued volatility over the remainder of the year but longer term believes a WCS price in a range of $75 - $80 per bbl is reasonable. The Company's proactive hedging or risk management strategy has, and will continue to stabilize realized pricing, ensuring consistency of cash flow for the dividend and capital plan. For the remainder of 2014, the Company is well positioned with approximately 57% of its anticipated heavy oil production hedged at approximately $75.00 per bbl. The Company has commenced layering in hedges for 2015 at WTI prices of approximately $100 per bbl and WCS prices of approximately $77.00 per bbl.

During 2014, the Company will continue its program of non-core asset dispositions, having recently agreed to approximately $4.5 million in dispositions, which are expected to close in the second quarter of 2014. These dispositions will further focus the Company's asset base with proceeds being used to partially fund the Company's ongoing organic capital plans in its core operating areas in Provost and Lloydminster.

The Company anticipates renewing its current bank facility before the end of May at a revised total of $365 million which provides substantial liquidity above the Company's drawn position of approximately $259 million as at March 31, 2014. The Company also has outstanding $85 million principal amount of convertible debentures with a carrying value of $78 million at the end of the first quarter.

OPERATIONS

The Company's first quarter capital plan was primarily focused on horizontal well activity in its core medium oil area of Provost and its heavy oil area at Lloydminster. The $37.9 million capital program included the drilling of 34 gross wells (34 net) of which 18 were horizontal. Strategically, the Company will continue to shift to more horizontal drilling with substantially all of the remaining wells in 2014 anticipated to be horizontal. This is part of the Company's ongoing transition to a more predictable and more sustainable base production profile.

At Provost, the Company continued with its development drilling program commenced late in 2013 with 15 wells drilled in the first quarter of 2014 and four wells thus far in the second quarter. Early results have demonstrated performance higher than the type curve expectation of 70 boe per day for the first three month average. Based on the high productivity and high oil cuts on the drilled wells completed to date, the Company anticipates drilling more than 50 wells at Provost in 2014. Twin Butte and the previous operator, Black Shire Energy Inc., have drilled over 80 similar wells on the property since 2010 which have demonstrated the repeatable success and predictable decline rate on wells in the area. Ongoing well and facility optimization in the area has reduced the base decline of the areas legacy production to under 20% per year.

The Company's expanding operations in Provost have improved the Company's dividend sustainability since the Provost area's production is medium quality oil which, along with lower operating and royalty costs, will generate an operating netback premium of between $15 to $20 per bbl above the Company's Lloydminster heavy oil barrels.

Twin Butte remains active at its horizontal heavy oil development in Wildmere, Alberta. The Wildmere asset has seen approximately 40 horizontal wells drilled on the property over the past 1.5 years with a five well program completed in the second quarter. Upward of an additional 15 horizontal locations will be pursued on the property.

At Frog Lake, four horizontal wells were drilled in 2013, and they continue to perform on the Company's type curve. This performance will lead to additional horizontal drilling later in 2014 and onwards. The Company currently has an inventory of 40 horizontal wells in the area.

Average production for the first quarter of 2014 was 22,529 boe per day. This rate is slightly lower than Twin Butte's year end 2013 exit rate as difficult weather related operating conditions were experienced during January and February. With spring breakup conditions being encountered current production is approximately 21,600 boe per day with approximately 800 boe per day awaiting completion or shut in due to trucking restrictions.

2014 REVISED FORECAST

Although the transition away from vertical heavy oil well concentration is ongoing and is showing early success, Twin Butte continues to experience higher than anticipated production declines on a number of its higher productivity vertically drilled heavy oil wells. Ultimate recovery factors in these pools are still anticipated to be on forecast and consistent with other similar pools in the area. These higher declines are not being experienced on the Company's horizontally drilled heavy oil wells or the Company's Provost are a medium oil production. Because of this, the Company now anticipates that its yearend 2014 production will be approximately 22,500 boe per day and average production for 2014 will be approximately 22,000 boe per day, a six to eight percent reduction from earlier estimates, based on full year capital spending of $140.6 million. Assuming, for the remainder of 2014, WTI pricing of $97.00 per boe, a US$/Cdn$ exchange ratio of 1.09, and a WTI to WCS heavy differential of $(24.50) per boe, the Company anticipates that its 2014 annual cash flow will be approximately $201 million. The Company will continue to adjust capital spending to ensure total payout ratio (dividend and capital) on an annual basis, does not exceed 100% as it has done since the initiation of its dividend in January 2012. As the Company transitions to a higher percentage of medium versus heavy oil production, it anticipates this payout ratio may be decreased to the low 90% range which will permit a higher capital allocation, re-supporting organic growth.

MANAGEMENT CHANGES

As part of the long term growth plan for the Company, the following management changes have been made. The Company is pleased to announce that Rob Wollmann and David Middleton have joined the Company as President and Chief Operating Officer, respectively, replacing the individuals that formerly held these roles. Both are seasoned professionals with experience in most operating areas of western Canada and have management skills with larger dividend paying organizations having over 100,000 boe per day of production.

Rob Wollmann has 28 years of geotechnical and executive experience and a proven track record of identifying, capturing and developing light oil and natural gas plays across the Western Canadian Sedimentary Basin. Rob has been involved in the successful growth of several junior and intermediate sized producers and has been in an executive management role at a senior dividend paying producer with over 100,000 boe per day of production.

David Middleton is a professional engineer with 34 years of operational and executive experience in the western Canadian oil and gas industry. David's technical experience includes extensive operational and development field experience in conventional heavy oil, thermal heavy oil, conventional oil and gas including enhanced oil recovery. In addition, he brings executive skills in guiding intermediate and senior oil and gas companies through periods of sustained growth through organic development and acquisition.

James Saunders, Twin Butte's Chief Executive Officer, stated "Bruce Hall, the Company's former President and Chief Operating Officer and Bob Bowman, the Company's former Vice President of Operations, have been valuable contributors to Twin Butte's success for the past number of years and we thank them for their professionalism and commitment to our company and wish them all the best in their future endeavors."

OUTLOOK

Since the initiation of its dividend policy in January 2012, Twin Butte's long term business plan of providing shareholders with long term total returns comprised of both income and moderate growth is and will remain the Company's focus. Twin Butte has been a leader of the junior to intermediate dividend energy companies in delivering strong capital efficiencies through disciplined capital focus. As the Company has grown, operating efficiencies and production predictability of certain of the Company's assets have faced challenges. As historically has been the case, Twin Butte will work diligently to overcome these challenges to ensure its business plan succeeds. The announced management changes provide the organization with enhanced bench strength to execute on its business plan.

Twin Butte will continue to match its capital plan to forecast cash flow less dividends. Recent positive movement in both oil pricing and the light to heavy oil differentials, combined with the Company's strong hedge position, allows Twin Butte to remain confident in the long term sustainability of the dividend.

The Company remains comfortable with the current dividend level and the payment has been approved through to the end of the year by the Board of Directors. The current forecast continues to show a total payout ratio under 100% for the year, consistent since the establishment of the dividend model in January 2012.

The point forward focus on horizontal drilling at Provost and Lloydminster will strengthen and enhance the Company's dividend sustainability and provide a platform for longer term moderate growth. While remaining strongly positioned with its low risk drilling inventory, the Company continues to review acquisition opportunities to further diversify and enhance the Company's commodity and play types .

ABOUT TWIN BUTTE

Twin Butte Energy Ltd. is a dividend paying value oriented intermediate producer with a significant low risk, high rate of return drilling inventory focused on large original oil and gas in place play types. Twin Butte is well positioned to provide shareholders with a sustainable dividend with growth potential over both the short and long term. Twin Butte is committed to continually enhance its asset quality while focusing on the sustainability of its dividend. The common shares of Twin Butte are listed on the TSX under the symbol "TBE".

(signed)

Jim Saunders
Chief Executive Officer

May 13, 2014

READER ADVISORY

Forward-Looking Statements

In the interest of providing Twin Butte's shareholders and potential investors with information regarding Twin Butte, including management's assessment of the future plans and operations of Twin Butte, certain statements contained in this report constitute forward-looking statements or information (collectively "forward-looking statements") within the meaning of applicable securities legislation. Forward-looking statements are typically identified by words such as "anticipate", "continue", "estimate", "expect", "forecast", "may", "will", "project", "could", "plan", "intend", "should", "believe", "outlook", "potential", "target" and similar words suggesting future events or future performance. In particular but without limiting the foregoing, this report contains forward-looking statements pertaining to the following: the amount of horizontal drilling activity planned for 2014; the Company's planned strategic shift to drilling additional horizontal light oil wells in 2014 and the anticipated effect thereof on the Company's production profile; the effects of the Company's hedging program; the Company's assessment as to the renewal of its credit facilities at revised levels; anticipated closing of certain non-core asset dispositions; the Company's anticipated netbacks in 2014; anticipated total payout ratio; future dividend levels; funds flow and cash flow forecasts; 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 headings "2014 Revised Forecast" and "Outlook" herein, including estimated budget levels, production rates, cash flows and targeted pay-out ratio in respect of the payment of dividends.

With respect to forward-looking statements contained in this report, Twin Butte has made assumptions regarding, among other things: future capital expenditure levels; future oil and natural gas prices and differentials between light, medium and heavy oil prices; results from operations including future oil and natural gas production levels; future exchange rates and interest rates; Twin Butte's ability to obtain equipment in a timely manner to carry out development activities; its ability to market its oil and natural gas successfully to current and new customers; the impact of increasing competition; Twin Butte's lenders will revise Twin Butte's borrowing base to the levels described herein; anticipated success with the Company's exploration and development programs; Twin Butte will not adjust its current monthly dividend; Twin Butte's business strategy in respect of its planned light oil horizontal drilling program will remain the same; Twin Butte's ability to obtain financing on acceptable terms; and Twin Butte's ability to add production and reserves through its development and exploitation activities. Although Twin Butte believes that the expectations reflected in the forward looking statements contained in this report, and the assumptions on which such forward-looking statements are made, are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned not to place undue reliance on forward-looking statements included in this report, as there can be no assurance that the plans, intentions or expectations upon which the forward-looking statements are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur, which may cause Twin Butte's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things, the following: the risks associated with the oil and gas industry; commodity prices; risks associated with the review of Twin Butte's credit facilities; 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 forward-looking statements contained in this report speak only as of the date of this report. Except as expressly required by applicable securities laws, Twin Butte does not undertake any obligation to publicly update or revise any forward looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this report are expressly qualified by this cautionary statement.

Barrels of Oil Equivalent

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

Funds Flow from Operations

The reader is cautioned that this report contains the term funds flow from operations, which is not a recognized measure under generally accepted accounting principles ("GAAP") and is a 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. Management uses this measure in order to assist them in understanding Twin Butte'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 GAAP as an indicator of the Company's performance. Twin Butte's method of calculating this measure may differ from other companies, and accordingly, may not be comparable to measures used by other companies.

Operating Netback

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

Net Debt

The reader is cautioned that this report contains the term net debt, which is not a recognized measure under GAAP and is calculated as bank debt adjusted for working capital excluding mark-to-market derivative contracts. Working capital excluding mark-to-market derivative contracts is calculated as current assets less current liabilities both of which exclude derivative contracts and current liabilities excludes the current portion of debt. Management uses net debt to assist them in understanding Twin Butte's liquidity at specific points in time. Mark-to-market derivative contracts are excluded from working capital, in addition to net debt, as management intends to hold each contract through to maturity of the contract's term as opposed to liquidating each contract's fair value or less. Twin Butte's method of calculating this measure may differ from other companies, and accordingly, may not be comparable to measures used by other companies.

Payout Ratio and Total Payout Ratio

The reader is cautioned that this report contains the terms payout ratio and total payout ratio which are not recognized measures under GAAP. Payout ratio is calculated as dividends paid and capital expenditures (excluding corporate acquisitions) as a percentage of funds flow from operations. Total Payout Ratio (net of DRIP and SDP) is the Payout ratio, adjusted for dividends paid or reinvested as stock. 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. Twin Butte's method of calculating these measures may differ from other companies, and accordingly, they may not be comparable to measures used by other companies.

Future Oriented Financial Information

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

Reader Advisory

This MD&A contains non-GAAP financial measures and forward-looking statements and readers are cautioned that the MD&A should be read in conjunction with the Company's disclosure under "Non-GAAP Financial Measures" and "Forward-Looking Statements". Certain information regarding Twin Butte set forth in this report including management's assessment of the Company's future plans and operations, the effect on the Company and on shareholders of Twin Butte, production increases and future production levels contain forward-looking statements that involve substantial known and unknown risks and uncertainties. These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond Twin Butte's control including, without limitation, the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, lack of availability of qualified personnel, stock market volatility, and ability to access sufficient capital from internal and external sources. Twin Butte's actual results, performance or achievements may differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that Twin Butte will derive there from. Additional information on these and other factors that could affect Twin Butte's results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com), or Twin Butte's website (www.twinbutteenergy.com). Furthermore, the forward-looking statements contained in this 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 May 13, 2014

INTRODUCTION

The following Management Discussion and Analysis ("MD&A") is management's assessment of Twin Butte Energy Ltd.'s ("Twin Butte" or the "Company") financial and operating results and should be read in conjunction with the message to shareholders and the interim financial statements of the Company for the three months ended March 31, 2014 and the audited financial statements and MD&A for the year ended December 31, 2013. 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 March 31	
	2014	2013
Sales *($000's)*		
Heavy oil	**84,249**	58,951
Light & Medium oil	**56,692**	4,745
Natural gas	**6,673**	4,189
Natural gas liquids	**1,586**	1,775
Total petroleum and natural gas sales	**149,200**	69,660
Average Daily Production		
Heavy oil (bbl/day)	**12,682**	13,890
Light & medium oil (bbl/day)	**7,614**	783
Natural gas (Mcf/day)	**12,200**	13,907
Natural gas liquids (bbl/day)	**200**	263
Total (boe/d)	**22,529**	17,254
% oil and liquids production	**91%**	87%
Average Twin Butte Realized Commodity Prices (1)		
Heavy oil ($ per bbl)	**73.81**	47.16
Light & Medium oil ($ per bbl)	**82.73**	67.36
Natural gas ($ per Mcf)	**6.08**	3.35
Natural gas liquids ($ per bbl)	**88.18**	75.04
Barrels of oil equivalent ($ per boe, 6:1)	**73.58**	44.86

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

Benchmark Pricing		
WTI crude oil (US$ per bbl)	**98.68**	94.37
Edmonton crude oil (Cdn$ per bbl)	**100.23**	88.65
WCS crude oil (Cdn$ per bbl)	**84.44**	64.17
AECO natural gas (Cdn$ per Mcf) (2)	**5.42**	3.03
Exchange rate (US$/Cdn$)	**1.10**	1.01

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

Sales for the three months ended March 31, 2014 were $149.2 million, as compared to $69.7 million for the three months ended March 31, 2013, representing an increase of $79.5 million or 114%. 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 $44.86 in the first quarter of 2013 to $73.58 during the first quarter of 2014. This 65% increase in realized price is due to a narrowing of the WCS benchmark and an increase in the Canadian WTI benchmark due to changes in the Canadian to US dollar exchange rate. Compared to the prior year quarter, the WCS benchmark increased 32% and the WTI crude oil benchmark, post conversion to Canadian dollars, increased 14%. Changes in our production mix due to a transition to higher-priced medium oil also increased the average realized price during the quarter.

Production also increased from 17,254 boe/d in the three months ended March 31, 2013 to 22,529 boe/d for the three months ended March 31, 2014. This increase of 5,275 boe/d is due the Company's drilling program and the Provost properties acquired with the Black Shire corporate acquisition. 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 9% of production volumes, and only 4% of sales revenue.

ROYALTIES

	Three months ended March 31	
($000's except per boe amounts)	**2014**	2013
Heavy Oil	**17,911**	12,243
Light & Medium oil	**5,948**	1,167
Natural Gas	**1,042**	114
NGLs	**269**	664
Total Royalties	**25,170**	14,188
Total royalties per boe	**12.41**	9.14
% of P&NG Sales	**17%**	20%

Royalties for the three months ended March 31, 2014 were $25.2 million, as compared to $14.2 million for the three months ended March 31, 2013. As a percentage of sales, the average royalty rate for the first quarter of 2014 decreased to 17%, compared to 20% in the first quarter of 2013, with heavy oil averaging 21%, medium & light oil averaging 10% and gas averaging 16%. Heavy oil royalty rates increased from the prior year quarter due to increased benchmark commodity prices and the corresponding provincial crude oil royalty calculation input prices. Light & medium oil royalty rates decreased with the addition of the Provost properties, which currently have lower royalty rates as a result of reduced rates for the first 18 months of production for horizontal drilled wells. Gas royalty rates increased from the prior year quarter due to increased benchmark commodity prices, and less prior year credits received.

OPERATING & TRANSPORTATION EXPENSE

	Three months ended March 31	
($000's except per boe amounts)	**2014**	2013
Operating expense	**46,253**	33,974
Transportation	**1,877**	1,522
Total operating & transportation expense	**48,130**	35,496
Operating expense per boe	**22.81**	21.88
Transportation expense per boe	**0.93**	0.98
Total per boe	**23.74**	22.86

Operating expenses were $46.3 million or $22.81 per boe for the quarter ended March 31, 2014 as compared to $34.0 million or $21.88 per boe for the three months ended March 31, 2013. In comparison to the prior year quarter, the Company is facing overall cost pressure due to the increasing cost of propane and power, and increased workovers.

Although they have a lower operating cost than historical Twin Butte properties, the recently acquired Provost properties bring additional exposure from power costs, as close to 30% of operating costs in the area are related to power consumption. To address this risk, in Q4 2013 the Company entered into fixed cost swaps for power consumption throughout 2014 and 2015 for a portion of estimated power usage.

Transportation expenses for the three months ended March 31, 2014 were $1.9 million or $0.93 per boe compared to $1.5 million or $0.98 per boe in the prior year comparative quarter. On an absolute basis, transportation has increased due to increased sales, and on a per boe basis, transportation decreased due to the addition of the Provost properties, which incur minimal transportation charges due to less trucking.

The Company has combined operating and transportation costs of $23.74 per boe for the quarter, an increase from $22.86 per boe for the comparable period of 2013. This 4% increase is driven by increased operating expenses. The Company targets all-in operating and transportation costs ranging from $22 to $24 per boe for 2014.

GENERAL AND ADMINISTRATIVE ("G&A") EXPENSES

	Three months ended March 31	
($000's except per boe amounts)	**2014**	2013
G&A expense	**5,229**	5,033
Capitalized G&A expense	**(1,044)**	(874)
Recoveries	**(1,091)**	(728)
Total net G&A expense	**3,094**	3,431
Total net G&A expense per boe	**1.53**	2.21
Transaction expense	**–**	55
Transaction expense per boe	**–**	0.03

General and administrative expenses, net of recoveries and capitalized G&A, were $3.1 million or $1.53 per boe for the current quarter as compared to $3.4 million or $2.21 per boe in the prior year comparative quarter. The Company's expenses increased slightly due to additional staff, but were offset by increased capital spending which increased G&A recoveries. On a per boe basis, G&A has decreased, as production increased at a greater rate than G&A due to acquisition synergies.

In line with continued acquisition synergies, the Company targets G&A for 2014 to be less than $2.00 per boe.

SHARE-BASED PAYMENT EXPENSE

	Three months ended March 31	
($000's except per boe amounts)	**2014**	2013
Total	**1,247**	1,371
Total per boe	**0.62**	0.88

During the three months ended March 31, 2014, the Company expensed $1.2 million in share-based payment expense as compared to $1.4 million in the three month period ended March 31, 2013.

The Company awarded 1,384,890 share awards and 544,619 performance share awards in the first quarter of 2014 as compared to 1,076,440 share awards and 455,342 performance share awards in the first quarter of 2013. Although more awards were granted this quarter as compared to the prior year quarter, share-based payment expense decreased this quarter due to a lower performance multiplier attached to 2014 vesting awards, and a decrease in the fair value of awards granted. Total share awards forfeited due to employee departures were 30,147 in the quarter versus 121,288 awards forfeited in the first quarter last year.

At March 31, 2014, the Company has 3,828,252 restricted share awards, 2,321,920 performance share awards and 640,434 options outstanding.

FINANCE EXPENSE

	Three months ended March 31	
(000's except per boe amounts)	**2014**	2013
Interest and bank charges	**2,426**	1,551
Interest on convertible debentures (1)	**1,328**	–
Accretion on convertible debentures (1)	**311**	–
Accretion on decommissioning provision	**1,359**	555
Total finance expense	**5,424**	2,106
Total interest per boe	**1.85**	1.00
Total accretion per boe	**0.82**	0.36
Total finance expense per boe	**2.67**	1.36

(1) Convertible debentures were issued in December 2013.

For the three months ended March 31, 2014, finance charges were $5.4 million as compared to $2.1 million in the three month period ended March 31, 2013. This increase is due to increased average bank debt for the quarter, which was $256 million compared to $186 million in the prior year quarter, and interest on the convertible debentures, issued in December 2013 with a face value of $85 million.

The Company's current interest charge on the operating line is bank prime of 3.0% plus a margin of 1.75% for a total rate of 4.75% and the Company's convertible debentures pay an interest rate of 6.25% annually. The combined effective interest rate for the quarter was 4.5%, as Bankers Acceptances were utilized to reduce the bank rate.

DERIVATIVE ACTIVITIES

	Three months ended March 31	
(000's except per boe amounts)	**2014**	2013
Realized gain (loss)	**(17,668)**	9,541
Cash proceeds – Swaptions	–	7,943
Unrealized gain (loss) – Financial derivatives	**(21,330)**	(29,707)
Gain (loss) and proceeds on derivatives	**(38,998)**	(12,223)
Realized gain (loss) on derivatives per boe	**(8.71)**	6.14
Cash proceeds derivatives per boe – Swaptions	–	5.12
Unrealized gain (loss) on derivatives per boe	**(10.52)**	(19.13)
Gain (loss) and proceeds per boe	**(19.23)**	(7.87)

As part of the financial management strategy to protect cash flows available for the payment of dividends and capital expenditures, 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 quarter, Twin Butte entered into fixed price crude oil for 2015 production periods and fixed price natural gas swaps for 2014 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 maximum volumes hedged for the subsequent 12 months are limited to 80% of current production.

In Q4 2013, the Company entered into fixed price swaps with its power provider in order to stabilize future operating costs. In 2013, power costs averaged $80 per megawatt hour, but frequently were over $100 per megawatt hour. As power costs make up a significant percentage of operating expense in the Provost region, these contracts will assist the Company in maintaining low operating costs in these areas. Current contracts are for approximately 65% of current and estimated future power usage.

Realized gains and cash proceeds

The Company realized a total loss of $17.7 million ($8.71 per boe) for the three month period ended March 31, 2014, compared to a total gain and proceeds of $17.5 million ($11.26 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 $17.0 million loss on crude oil sales price derivatives and a $0.7 million loss on natural gas sales price derivatives. In the prior year quarter, the total included a gain of $9.5 million on fixed price swaps and $7.9 million in proceeds from crude oil swaptions.

Unrealized derivative assets and liabilities

As at March 31, 2014, the Company has a net unrealized financial derivative liability in the amount of $53.6 million. This net unrealized loss position reflects both strong WTI crude oil and AECO natural gas benchmark forward pricing. If WTI and AECO pricing meet the forecasted benchmarks, these loss positions would be realized alongside increased sales due to the high commodity pricing.

The Company has recognized an unrealized loss on financial derivatives in the amount of $21.3 million for the three month period ended March 31, 2014 as compared to $29.7 million unrealized loss for the prior year comparative quarter. This unrealized loss is due to an increase in forward WTI pricing for the second half of 2014, an increase in natural gas benchmark pricing, a slight narrowing of the WCS to WTI forward differential, and a decrease in forecasted power prices when compared to December 31, 2013.

The following is a summary of derivatives as at March 31, 2014 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 ($CAD)	WCS (2) Fixed Price per bbl ($CAD)	Fixed price per bbl WCS (2) vs. WTI (1) ($CAD)	Fixed written call price per bbl WTI (1) ($USD)	Fair market value *$000's*
3,500	January 1, 2014 to December 31, 2014	$95.89				(11,967)
12,400	April 1, 2014 to June 30, 2014	$96.11				(16,911)
8,650	July 1, 2014 to September 30, 2014	$94.69				(10,859)
500	July 1, 2014 to December 31, 2014	$99.25				(708)
7,500	October 1, 2014 to December 31, 2014	$94.66				(7,520)
2,500	January 1, 2015 to December 31, 2015	$98.97				(1,292)
1,000	January 1, 2015 to March 31, 2015	$97.46				(503)
1,000	April 1, 2015 to June 30, 2015	$99.00				(192)
1,500	October 1, 2014 to December 31, 2014		$75.00			(1,108)
500	January 1, 2015 to December 31, 2015		$77.75			(67)
2,000	January 1, 2015 to June 30, 2015		$78.03			(378)
1,000	January 1, 2014 to December 31, 2014			$(22.00)		(140)
2,000	January 1, 2014 to June 30, 2014			$(19.55)		495
3,500	February 1, 2014 to December 31, 2014			$(20.86)		696
3,500	April 1, 2014 to June 30, 2014			$(20.04)		624
1,000	April 1, 2014 to December 31, 2014			$(22.60)		(244)
4,000	July 1, 2014 to December 31, 2014			$(21.90)		(404)
2,000	July 1, 2014 to September 30, 2014			$(21.95)		(351)
1,000	January 1, 2015 to December 31, 2015			$(19.75)		148
1,300	January 1, 2014 to December 31, 2014				$110.00	(189)
Crude oil fair value position						(50,870)

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

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

Natural Gas Sales Price Derivatives

Daily giga-joule (GJ) quantity	Term of contract	Fixed price per GJ AECO Daily	Fair Market Value *($000's)*
9,375	January 1, 2014 to December 31, 2014	$3.57	(2,219)
Natural gas fair value position			(2,219)

Power Purchase Price Derivatives

Daily Megawatt (MW) hours quantity	Term of contract	Fixed price per MW	Fair Market Value *($000's)*
288	January 1, 2014 to December 31, 2014	$55.05	(204)
192	January 1, 2015 to December 31, 2015	$53.02	(273)
Power purchase contract fair value position			(477)

GAIN/LOSS ON DISPOSITIONS

During the three months ended March 31, 2014, the Company did not make any significant acquisitions or dispositions. In the three months ended March 31, 2013, the Company disposed of minor properties for net cash proceeds of $4.0 million, which resulted in a gain of $3.9 million.

DEPLETION, DEPRECIATION & IMPAIRMENT

	Three months ended March 31	
($000's except per boe amounts)	**2014**	2013
Depletion & Depreciation	**46,331**	30,642
Depletion & Depreciation per boe	**22.85**	19.73

For the three month period ended March 31, 2014, depletion and depreciation of capital assets was $46.3 million or $22.85 per boe compared to $30.6 million or $19.73 per boe for the prior year comparative period. On an absolute basis, this increase relates to increased production associated with the acquisitions, and increased depletion following a reduction in reserves associated with the Heavy Oil CGU in the fourth quarter of 2013. The rate per boe also increased from the prior period quarter due to the Heavy Oil reserve decrease.

There were no impairment indicators noted for Property & Equipment (PP&E) or Exploration and Evaluation (E&E) assets during the quarter.

INCOME TAXES

Deferred tax amounted to a $4.7 million recovery for the three month period ended March 31, 2014 compared to $9.9 million recovery for the three month period ended March 31, 2013. This recovery is the result of losses on unrealized derivative contracts.

The Company has existing tax losses and pools of approximately $771 million at March 31, 2014. These income tax pools are deductible at various rates and annual deductions associated with the initial pools will decline over time.

NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

	Three months ended March 31	
($000's except per share amounts)	**2014**	2013
Net Income (loss)	**(15,240)**	(29,633)
Net Income (loss) per share	**(0.04)**	(0.12)

Net and comprehensive income for the three month period ended March 31, 2014 was a net loss of $15.2 million, compared to a net loss of $29.6 million in the three months ended March 31, 2013. The net loss was mainly due to an unrealized mark to market loss on derivatives.

QUARTERLY FINANCIAL SUMMARY

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

($ 000, except per share amounts)	**Q1 2014**	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012
Average production (boe/d)	**22,529**	19,960	16,263	16,849	17,254	17,531	13,752	14,193
Petroleum and natural gas sales (1)	**149,200**	104,578	115,709	96,590	69,660	86,657	71,805	68,559
Operating netback (per boe) (2)	**28.72**	24.92	26.13	24.98	24.12	26.27	33.80	28.95
Funds flow from operations (3)	**51,384**	36,978	34,899	33,058	32,423	37,754	38,119	33,762
Per share basic	**0.15**	0.12	0.14	0.13	0.13	0.16	0.19	0.18
Per share diluted	**0.15**	0.12	0.14	0.13	0.13	0.16	0.19	0.17
Net income (loss)	**(15,240)**	(88,028)	8,111	(6,082)	(29,633)	(5,381)	(7,411)	29,529
Per share basic	**(0.04)**	(0.28)	0.03	(0.02)	(0.12)	(0.02)	(0.04)	0.15
Per share diluted	**(0.04)**	(0.28)	0.03	(0.02)	(0.12)	(0.02)	(0.04)	0.15
Corporate acquisitions (4)	**–**	356,521	–	–	–	134,972	88,369	–
Capital expenditures (5)	**37,890**	33,632	9,048	14,871	19,625	38,530	17,369	24,126
Total assets	**1,174,100**	1,165,638	802,916	790,056	815,040	845,261	690,240	588,893
Net debt excluding financial derivatives	**363,659**	361,612	179,013	193,750	200,542	201,703	146,843	124,459

(1) Certain transportation costs previously reported on a gross basis in 2013 and 2012 were determined to be more accurately reflected on a net basis in petroleum and natural gas sales. Prior period amounts have been reclassified to reflect this determination.

(2) 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.

(3) 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.

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

(5) 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. The Company completed the acquisition of Avalon Exploration Ltd. in Q3 2012, and Waseca Energy in Q4 2012, resulting in increased production in the second half of 2012. Volatile commodity prices in 2013 reduced sales in Q1, but increased sales in Q2 and Q3 2013. In Q4 2013, the Company added production volumes with the acquisition of Black Shire Energy. In Q1 2014, production of 22,529 boe/d combined with high commodity prices for significantly 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 moderated 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 2013. In Q3 2013, funds flow from operations increased from the first half of the year, due to sales increases that were partly offset by realized losses on financial derivatives. In Q4 2013, despite decreased pricing from Q3, the higher netback on the Provost properties increased funds flow from operations. In Q1 2014, funds flow increased significantly to $51.4 million due to increased revenue associated with increased production and realized sales prices.

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. 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. Unrealized losses on derivatives and impairment losses reduced net income in Q4 2013. In Q1 2014, net losses were also mainly due to unrealized losses on derivatives.

DIVIDENDS

For the three months ended March 31, 2014, Twin Butte paid cash dividends of $14.9 million, while $1.7 million was invested in Twin Butte shares through the DRIP and SDP, compared to $10.5 million paid in cash dividends and $1.5 million invested in shares in the first quarter of 2013.

Cash dividends declared for the three months ended March 31, 2014, which includes dividends declared and payable on March 31, 2014 and is net of the DRIP and SDP, were $14.9 million. Cash dividends declared for the three months ended March 31, 2013 were $11.4 million.

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

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

	Three months ended March 31	
(000's except per share amounts)	**2014**	2013
Cash flow from operating activities	**55,714**	28,569
Expenditures on decommissioning liability	**311**	537
Change in non-cash working capital	**(4,641)**	3,317
Funds flow (1)	**51,384**	32,423
Funds flow per share	**0.15**	0.13
Dividends declared	**(16,550)**	(12,603)
Capital Expenditures (2)	**(37,890)**	(19,625)
Payout ratio (3)	**106%**	99%
Reinvested dividends (DRIP and SDP)	**1,653**	1,253
Cash dividends declared	**(14,897)**	(11,350)
Total payout ratio (net of DRIP and SDP) (3)	**103%**	96%

(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 annual payout does not exceed cash flow, on an on-going basis where required. For the three month period ended March 31, 2014, the total payout ratio was 103%, due to a seasonally high level of capital expenditures.

Funds flow from operations for the three month period ended March 31, 2014 were $51.4 million, an increase from first quarter 2013 funds flow of $32.4 million, due to increased sales revenue. This represents $0.15 per diluted share compared to $0.13 per diluted share for in 2013, as increased funds flow outpaced the increased number of shares outstanding.

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

($ per boe)	**Q1 2014**	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012
Petroleum and natural gas sales (1)	**73.58**	56.95	77.32	63.00	44.86	53.73	56.76	53.08
Cash gain (loss) on financial derivatives	**(8.71)**	1.41	(10.87)	0.01	11.26	4.83	8.02	6.91
Royalties	**(12.41)**	(11.50)	(17.51)	(13.39)	(9.14)	(9.83)	(11.40)	(12.84)
Operating expense	**(22.81)**	(21.12)	(21.53)	(22.92)	(21.88)	(19.73)	(18.38)	(17.19)
Transportation expense (1)	**(0.93)**	(0.82)	(1.30)	(1.72)	(0.98)	(1.57)	(1.20)	(1.01)
Operating netback (2)	**28.72**	24.92	26.13	24.98	24.12	27.43	33.80	28.95
General and administrative expense	**(1.53)**	(1.92)	(1.62)	(2.05)	(2.21)	(2.07)	(2.22)	(1.57)
Transaction costs	**–**	(1.17)	–	–	(0.03)	(0.76)	(0.62)	(0.20)
Interest and bank charges	**(1.85)**	(1.70)	(1.18)	(1.37)	(1.00)	(1.18)	(1.00)	(1.05)
Funds flow from operations (3)	**25.34**	20.13	23.33	21.56	20.88	23.42	29.96	26.13

(1) Certain transportation costs previously reported on a gross basis in 2013 and 2012 were determined to be more accurately reflected on a net basis in petroleum and natural gas sales. Prior period amounts have been reclassified to reflect this determination.

(2) 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.

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

CAPITAL EXPENDITURES AND PP&E ADDITIONS

	Three months ended March 31	
($000's)	**2014**	2013
Land acquisition	**121**	10
Geological and geophysical	**234**	501
Drilling and completions	**25,776**	16,515
Equipping and facilities	**10,791**	5,755
Other	**1,044**	874
Development capital	**37,966**	23,655
Property acquisitions - Cash paid	**–**	–
Property dispositions - Cash received	**(76)**	(4,030)
Capital expenditures (1)	**37,890**	19,625
Net other additions to PP&E (2)	**(47)**	11,305
Corporate acquisition additions to PP&E	**–**	–
Total net additions to PP&E	**37,843**	30,930

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

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

During the first quarter of 2014, the Company invested $38.0 million on development capital, an increase from $23.7 million in development capital invested in Q1 2013. The Company's development capital expenditures for the quarter were focused in the Heavy Oil and Provost areas, with successful drilling of 6 (6.0 net) oil wells at Rosenheim; 5 (5.0 net) wells at Celtic; 4 (4.0 net) wells at Swimming, 3 (3.0 net) at Cadogan, as well as 14 (14.0 net) wells at various other heavy oil properties.

Drilling Results

Three months ended March 31	2014		2013	
	Gross	**Net**	Gross	Net
Crude oil	**32**	**32.0**	25	25.0
Dry and abandoned	**2**	**2.0**	3	3.0
Total	**34**	**34.0**	28	28.0
Success rate (%)		**94%**		89%

Undeveloped Land

The Company's undeveloped land holdings have decreased from the December 31, 2013, as conversions from drilling, dispositions and expiries were greater than purchases.

	At March 31 2014	At December 31 2013
Gross Acres	**934,805**	958,432
Net Acres	**395,437**	418,382

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 and the management of capital resources.

	Three months ended March 31	
(000's)	**2014**	2013
Funds flow (1)	**51,384**	32,423
Annualized funds flow (2)	**205,536**	129,692
Net debt (3)	**363,659**	200,542
Net debt to annualized funds flow (4)	**1.8**	1.5

(1) Funds flow 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) Annualized funds flow is a non-GAAP measures that represents funds flow for the period, multiplied to represent 12 months, where necessary.

(3) Net Debt is a non-GAAP measure representing the total of bank indebtedness, convertible debenture liability, 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 provided to further understand the liquidity of the Company. This ratio is calculated as net debt divided by annualized funds flow.

For the three months ended March 31, 2014, the annualized net debt to funds flow ratio was 1.8, an increase from the prior year quarter, which was 1.5, but a decrease from 2.4 in the fourth quarter of 2013. The decrease from the previous quarter, Q4 2013, is driven by full quarter of funds flow to match the debt associated with the corporate acquisition of Black Shire. In Q4 2013, less than two months of funds flow was applied to the full debt balance from the acquisition. Based on net debt of $363.7 million at March 31, 2014, and forecasted annual funds flow for 2014, we expect the net debt to annualized funds flow ratio to be less than 1.8 for 2014, with a target exit ratio of less than 1.75.

The Company 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 $141 million on the Company's dedicated credit facility of $400 million. 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.

In the management of capital, the Company includes working capital and 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 covenants detailed below. The Company confirms there are no off-balance sheet financing arrangements.

Credit Facility

At March 31, 2014, the Company's dedicated bank facility consists of a revolving line of credit of $375 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 annual credit facility review is currently underway and the expiry of the 2014 annual revolving period was extended from April 30, 2014 to May 30, 2014, for administrative reasons.

This facility is extendible at the request of the Company for a further 364 days, subject to approval of the lenders and is repayable one year after the expiry of the revolving period if not extended. The credit facility is with a syndicate of six 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 an adjusted current ratio of 1:1, which includes the undrawn portion of the credit facility as a current asset, and limits on financial commodity agreements which require total agreements to be less than 80% the average daily production of the prior quarter at the time the agreement is signed. As the commodity agreements extend beyond 12 months, the maximum percentage decreases to 70%, and then to 60% for those agreements with terms greater than 24 months. At March 31, 2014, the Company has met all covenants pertaining to this loan agreement. Twin Butte is not in default in relation to this agreement and was not required to make any repayments.

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.

Convertible Debentures

In December 2013, the Company completed the issuance of convertible unsecured subordinated debentures (the "Debentures") for gross proceeds of $85.0 million ($81.4 million net of issuance costs) at a price of $1,000 per debenture. The debentures pay interest at a rate of 6.25% per annum, payable in arrears on a semi-annual basis on June 30 and December 31 of each year, commencing on June 30, 2014. The debentures mature on December 31, 2018.

The debentures are convertible at the option of the holder into common shares at a fixed conversion price of $3.05 per share. After December 31, 2016, the Company may redeem the debentures in whole or part provided the common shares' weighted average trading price during a specified period prior to redemption is not less than 125% of the conversion price. As at March 31, 2014, no conversions or redemptions have occurred.

SHARE CAPITAL

In the first quarter of 2014, 1,229,043 shares were issued on account of vested share and performance share awards that were exercised and 762,612 shares were issued for the DRIP and SDP dividend programs, compared to 819,743 shares issued on account of share awards, and 666,543 shares issued for the DRIP program in the first quarter of 2013.

As of May 13, 2014 the Company has 345,372,316 Common Shares, 640,434 stock options and 6,470,236 share awards, including reinvested dividends and performance multipliers, 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 $182.1 million (December 31, 2013 – $182.0 million) based on current legislation and estimated costs. Actual costs may differ from those estimated due to changes in legislation or actual costs.

Additional contractual obligations and commitments are as follows:

As at March 31, 2014 *(000's)*	Less than one year	One to three years	Three to five years	Total
Derivative liability	53,428	1,605	–	55,033
Bank indebtedness - principal (1)	–	259,169	–	259,169
Bank indebtedness - interest	10,367	–	–	10,367
Convertible debentures - principal (2)	–	–	85,000	85,000
Convertible debentures - coupon	10,625	10,625	10,625	31,875
Purchase obligations (3)	5,281	2,822	–	8,103
Other (4)	1,680	4,929	678	7,287
	81,381	279,150	96,303	456,834

(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 2014 renewal review is currently underway. Management fully expects the facility to be extended.

(2) Repayment of the Convertible Debentures assumes that all holders of the debentures will not convert their holdings into shares.

(3) Purchase obligations include contracts to purchase and consume electricity during 2014 and 2015. The fair value of these contracts is recorded as a financial asset.

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

RELATED PARTY TRANSACTIONS

During the period ended March 31, 2014, the Company incurred related party costs totaling $0.8 million ($2.2 million – March 31, 2013) for oilfield services and legal counsel rendered by three companies of which an officer and director of Twin Butte is a director.

These costs were incurred in the normal course of business and were recorded at the amount exchanged between the parties. As at March 31, 2014, the Company had $0.2 million ($1.7 million – December 31, 2013) included in accounts payable and accrued liabilities related to these transactions.

SUBSEQUENT EVENTS

Crude Oil Sales Price Derivative Contracts

Subsequent to March 31, 2014 the Company entered into several crude oil price derivatives. The average barrels and prices for these contracts are as follows:

Daily barrel (bbl) quantity	Term of contract	WTI (1) Fixed price per bbl ($CAD)
1,000	January 1, 2015 to June 30, 2015	$103.70
1,000	January 1, 2015 to December 31, 2015	$101.75

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

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 financial statements for the three months ended March 31, 2014 is included in the following annual notes to the audited financial statements for the year ended December 31, 2013:

- Note 5 – valuation of financial instruments;
- Note 9 – valuation of property and equipment;
- Note 13 – measurement of decommissioning provision;
- Note 14 – measurement of share-based compensation; and
- Note 19 – income tax expense.

The Company's significant areas of estimation uncertainty have not changed during the quarter.

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 of 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, 2013.

Significant Accounting Policies

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2014:

i) IAS 32 Financial Instruments: Presentation — The Company adopted, as required, amendments to IAS 32. The amendments clarify that the right to offset financial assets and liabilities must be available on the current date and cannot be contingent on a future event. IAS 32 did not impact the Company's interim financial statements.

ii) IFRIC 21 Levies — The International Financial Reporting Interpretation Committee clarified in IFRIC 21 that an entity recognizes a liability for a levy when the activity that triggers payment occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarified that no liability should be anticipated before the minimum threshold is reached. The adoption of this interpretation did not have an impact to the company's interim financial statements.

There were no new or amended standards issued during the three months ended March 31, 2014 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 is disclosed in note 3 of the annual financial statements for the year ended December 31, 2013.

The accounting policies followed in these condensed interim financial statements are consistent with those of the previous year.

ASSESSMENT OF BUSINESS RISKS

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

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

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

Twin Butte seeks to mitigate these risks by:

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

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

Twin Butte's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation, that the disclosure controls and procedures as of March 31, 2014 are effective and provide reasonable assurance that material information related to the Company is made known to them by others within Twin Butte.

Twin Butte's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining internal controls over financial reporting ("ICFR"). They have, as at March 31, 2014, 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*	**March 31, 2014**	December 31, 2013
ASSETS			
Current Assets			
Accounts receivable		**$ 66,971**	$ 48,674
Deposits and prepaid expenses		**6,405**	5,588
Derivative assets	*4*	**1,356**	2,228
		74,732	56,490
Non-current assets			
Derivative assets	*4*	**111**	518
Exploration and evaluation	*6*	**63,140**	64,025
Property and equipment	*7*	**1,036,117**	1,044,605
		$ 1,174,100	$ 1,165,638
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities		**$ 94,386**	$ 80,556
Dividend payable		**5,521**	5,489
Derivative liabilities	*4*	**53,428**	34,983
		153,335	121,028
Non-current liabilities			
Derivative liabilities	*4*	**1,605**	-
Bank indebtedness	*8*	**259,169**	252,181
Convertible debentures	*9*	**77,959**	77,648
Deferred taxes		**26,677**	31,348
Decommissioning provision	*10*	**182,148**	181,758
		700,893	663,963
Shareholders' Equity			
Share capital	*11*	**721,604**	717,246
Contributed surplus		**7,782**	8,818
Equity component of convertible debenture		**2,879**	2,879
Deficit		**(259,058)**	(227,268)
		473,207	501,675
		$ 1,174,100	$ 1,165,638

Commitments and contingencies (note 17)

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

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

(unaudited - Cdn$ thousands except per share amounts)	*Note*	Three months ended March 31 **2014**	2013
Petroleum and natural gas sales	*15*	**$ 149,200**	$ 69,660
Royalties		**(25,170)**	(14,188)
Revenues		**$ 124,030**	$ 55,472
Expenses			
Operating		**46,253**	33,974
Transportation	*15*	**1,877**	1,522
General and administrative	*12*	**3,094**	3,431
Transaction costs		**–**	55
Share-based payments	*11*	**1,247**	1,371
Finance expense	*13*	**5,424**	2,106
Loss (gain) on derivatives	*4*	**38,998**	20,166
Exploration and evaluation expense	*6*	**597**	5,635
Loss (gain) on disposition of property and equipment		**–**	(659)
Loss (gain) on disposition of exploration asset		**115**	(3,208)
Depletion and depreciation	*7*	**46,331**	30,642
		143,936	95,035
Income (loss) before income taxes		**(19,906)**	(39,563)
Deferred tax expense (recovery)		**(4,666)**	(9,930)
Net income (loss) and comprehensive income (loss)		**$ (15,240)**	$ (29,633)
Net Income (loss) per share $			
Basic	*11*	**(0.04)**	(0.12)
Diluted	*11*	**(0.04)**	(0.12)

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

STATEMENT OF CASH FLOWS

(unaudited - Cdn$ thousands)	*Note*	Three months ended March 31 **2014**	2013
Cash provided by (used in):			
OPERATING ACTIVITIES:			
Net income (loss)		**$ (15,240)**	$ (29,633)
Adjustments for items not involving cash:			
Depletion and depreciation	*7*	**46,331**	30,642
Deferred tax expense (recovery)		**(4,666)**	(9,930)
Unrealized loss on derivatives	*4*	**21,330**	29,707
Finance expenses	*13*	**5,424**	2,106
Interest paid	*13*	**(3,754)**	(1,551)
Share-based payments	*11*	**1,247**	1,371
Exploration and evaluation expenses	*6*	**597**	5,635
Loss (gain) on disposition of property and equipment		**–**	(659)
Loss (gain) on disposition of exploration asset		**115**	(3,208)
Cash premiums on derivatives	*4*	**–**	7,943
Expenditures on decommissioning provision	*10*	**(311)**	(537)
Changes in non-cash working capital	*14*	**4,641**	(3,317)
		55,714	28,569
FINANCING ACTIVITIES			
Increase (decrease) in bank indebtedness	*8*	**6,988**	4,375
Share issue costs	*11*	**(22)**	–
Dividends paid		**(14,865)**	(10,453)
		(7,899)	(6,078)
INVESTING ACTIVITIES			
Expenditures on property and equipment		**(37,704)**	(23,204)
Expenditures on exploration and evaluation assets		**(262)**	(451)
Proceeds on disposition of property and equipment		**43**	560
Proceeds on disposition of exploration and evaluation assets		**33**	3,470
Changes in non-cash working capital	*14*	**(9,925)**	(2,866)
		(47,815)	(22,491)
Change in cash		**$ –**	$ –
Cash and cash equivalents, beginning and end of period		**$ –**	$ –

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

		Three months ended March 31	
(unaudited - Cdn$ thousands)	*Note*	**2014**	2013
Share capital			
Balance, beginning of period		**$ 717,246**	$ 523,226
Share issue costs, net of deferred tax	*11*	**(16)**	–
Common shares issued pursuant to the DRIP and SDP	*11*	**1,653**	1,503
Common shares issued under employee and option plan	*11*	**2,721**	1,896
Balance, end of period		**$ 721,604**	$ 526,625
Contributed surplus			
Balance, beginning of period		**$ 8,818**	$ 7,624
Share-based payments for awards exercised	*11*	**(2,721)**	(1,896)
Share-based payments for awards granted		**1,685**	1,713
Balance, end of period		**$ 7,782**	$ 7,441
Deficit			
Balance, beginning of period		**$ (227,268)**	$ (59,349)
Dividends	*11*	**$ (16,550)**	$ (12,603)
Net income (loss) and comprehensive income (loss)		**(15,240)**	(29,633)
Balance, end of period		**$ (259,058)**	$ (101,585)

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

NOTES TO INTERIM FINANCIAL STATEMENTS

For the periods ended March 31, 2014 and 2013 (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 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 applied the same accounting policies throughout all periods presented as those disclosed in the notes to the audited financial statements for the year ended December 31, 2013, except as identified in note 3. Certain disclosures included in the notes to the audited annual financial statements have been condensed in the note disclosures that follow or are disclosed on an annual basis only. These condensed interim financial statements should only be read in conjunction with the annual financial statements for the year ended December 31, 2013.

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, 2013. They are presented in Canadian dollars, which is the Company's functional currency.

These financial statements were approved and authorized for issue by the Board of Directors on May 13, 2014.

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2014:

i) IAS 32 Financial Instruments: Presentation — The Company adopted, as required, amendments to IAS 32. The amendments clarify that the right to offset financial assets and liabilities must be available on the current date and cannot be contingent on a future event. IAS 32 did not impact the Company's interim financial statements.

ii) IFRIC 21 Levies — The International Financial Reporting Interpretation Committee clarified in IFRIC 21 that an entity recognizes a liability for a levy when the activity that triggers payment occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarified that no liability should be anticipated before the minimum threshold is reached. The adoption of this interpretation did not have an impact to the Company's interim financial statements.

There were no new or amended standards issued during the three months ended March 31, 2014 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 is disclosed in note 3 of the annual financial statements for the year ended December 31, 2013.

The accounting policies followed in these condensed interim financial statements are consistent with those of the previous year.

NOTE 4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments of the Company include accounts receivable, deposits, accounts payable and accrued liabilities, bank indebtedness, convertible debentures, dividends payable, and derivative assets and liabilities. As at March 31, 2014, the carrying amounts reported on the Balance Sheet approximated the estimated fair values of financial instruments (excluding convertible debentures) due to the short terms to maturity and the floating interest rate on the bank indebtedness. The estimated fair value of the convertible debentures has been determined based on prices sourced from market data and other observable inputs, as discussed below.

($000's)	Level in fair value hierarchy	As at March 31, 2014 Carrying Amount	As at March 31, 2014 Estimated Fair Value	As at December 31, 2013 Carrying Amount	As at December 31, 2013 Estimated Fair Value
Financial Assets					
Held For trading					
Derivative assets - oil and gas	Level 2	**1,467**	**1,467**	2,745	2,745
Loans and receivables					
Accounts receivable	Level 2	**66,971**	**66,971**	48,674	48,674
Deposits	Level 2	**498**	**498**	502	502
Financial Liabilities					
Held for trading					
Derivative liabilities - oil and gas	Level 2	**54,556**	**54,556**	34,983	34,983
Derivative liabilities - power	Level 3	**477**	**477**	(1)	(1)
Financial liabilities at amortized cost					
Accounts payable and accrued liabilities	Level 2	**94,386**	**94,386**	80,556	80,556
Dividends payable	Level 2	**5,521**	**5,521**	5,489	5,489
Bank indebtedness	Level 2	**259,169**	**259,169**	252,181	252,181
Convertible debentures	Level 2	**77,959**	**78,551**	77,648	77,260

Derivative assets and liabilities are carried at fair value and are measured on a recurring basis. The fair values of oil and gas commodity derivatives are determined using a Level 2 valuation model and inputs include quoted forward prices for commodities, foreign exchange rates, volatility and discounting, all of which can be observed or corroborated in the marketplace. Power purchase derivatives are calculated using a Level 3 valuation model, as inputs include forward power prices in less active markets. These inputs are obtained from third parties whenever possible and reviewed by the Company for reasonableness. The fair value of convertible debentures is determined using a Level 2 valuation model and inputs include quoted market prices for the debentures, interest rates and discounting.

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 period ended March 31, 2014, there were no transfers between levels 1, 2 or 3.

The table below summarizes the changes in Level 3 measured derivatives:

($000s)	
Level 3, December 31, 2013	1
Change in fair value of power purchase derivatives	(478)
Level 3, March 31, 2014	**(477)**

(a) Risk Management Assets and Liabilities

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

	Three months ended March 31	
($000's)	**2014**	2013
Realized gain (loss)	**(17,668)**	9,541
Unrealized gain (loss)	**(21,330)**	(29,707)
Gain (loss) on derivatives	**(38,998)**	(20,166)

During the period ended March 31, 2013, the Company also realized $7.9 million of cash premiums received for selling crude oil swaption derivative contracts (March 31, 2014 - $nil). A crude oil swaption contract is an option that allows the holder to exercise and enter into a fixed price crude oil derivative contract.

Derivative Position

As at	**March 31, 2014**	December 31, 2013
Current asset	**1,356**	2,228
Non-current asset	**111**	518
Current liability	**(53,428)**	(34,983)
Non-current liability	**(1,605)**	–
Net derivative asset (liability) position	**(53,566)**	(32,237)

Derivative Summary

As at	**March 31, 2014**	December 31, 2013
Crude oil sales price derivatives	**(50,870)**	(31,707)
Natural gas sales price derivatives	**(2,219)**	(531)
Power purchase price derivatives	**(477)**	1
Net derivative asset (liability) position	**(53,566)**	(32,237)

Crude Oil Sales Price Derivatives

Daily barrel (bbl) quantity	Term of contract	WTI (1) Fixed price per bbl ($CAD)	WCS (2) Fixed Price per bbl ($CAD)	Fixed price per bbl WCS (2) vs. WTI (1) ($CAD)	Fixed written call price per bblWTI (1) ($USD)	Fair market value *($000's)*
3,500	January 1, 2014 to December 31, 2014	$95.89				(11,967)
12,400	April 1, 2014 to June 30, 2014	$96.11				(16,911)
8,650	July 1, 2014 to September 30, 2014	$94.69				(10,859)
500	July 1, 2014 to December 31, 2014	$99.25				(708)
7,500	October 1, 2014 to December 31, 2014	$94.66				(7,520)
2,500	January 1, 2015 to December 31, 2015	$98.97				(1,292)
1,000	January 1, 2015 to March 31, 2015	$97.46				(503)
1,000	April 1, 2015 to June 30, 2015	$99.00				(192)
1,500	October 1, 2014 to December 31, 2014		$75.00			(1,108)
500	January 1, 2015 to December 31, 2015		$77.75			(67)
2,000	January 1, 2015 to June 30, 2015		$78.03			(378)
1,000	January 1, 2014 to December 31, 2014			(22.00)		(140)
2,000	January 1, 2014 to June 30, 2014			(19.55)		495
3,500	February 1, 2014 to December 31, 2014			(20.86)		696
3,500	April 1, 2014 to June 30, 2014			(20.04)		624
1,000	April 1, 2014 to December 31, 2014			(22.60)		(244)
4,000	July 1, 2014 to December 31, 2014			(21.90)		(404)
2,000	July 1, 2014 to September 30, 2014			(21.95)		(351)
1,000	January 1, 2015 to December 31, 2015			(19.75)		148
1,300	January 1, 2014 to December 31, 2014				$110.00	(189)
Crude oil fair value position						(50,870)

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

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

Natural Gas Sales Price Derivatives

Daily giga-joule (GJ) quantity	Term of contract	Fixed price per GJ AECO Daily	Fair Market Value *($000's)*
9,375	January 1, 2014 to December 31, 2014	$3.57	(2,219)
Natural gas fair value position			(2,219)

Power Purchase Price Derivatives

Daily Megawatt (MW) hours quantity	Term of contract	Fixed price per MW	Fair Market Value *($000's)*
288	January 1, 2014 to December 31, 2014	$55.05	(204)
192	January 1, 2015 to December 31, 2015	$53.02	(273)
Power purchase contract fair value position			(477)

NOTE 5. CAPITAL MANAGEMENT

The Company's capital structure is comprised of shareholder's equity and the non-GAAP measure of total net debt [(2)]. Twin Butte's capital structure as at March 31, 2014 and December 31, 2013 is as follows:

($000's)	**March 31, 2014**	December 31, 2013
Bank indebtedness	**259,169**	252,181
Convertible debentures	**77,959**	77,648
Working capital deficit (surplus) [(1)]	**26,531**	31,783
Net debt [(2)]	**363,659**	361,612
Shareholders' Equity	**473,207**	501,675
Net Debt to Equity [(2)]	**0.77**	0.72

(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, convertible debenture liability, accounts payable and accrued liabilities, cash dividend payable, less accounts receivable, deposits and prepaids, whereas net debt to equity is the ratio of net debt compared to equity.

As at March 31, 2014, the Company utilized $259.2 million of its dedicated $400 million credit facility. The bank debt, working capital deficit of $26.5 million and convertible debenture liability of $78.0 million resulted in $363.7 million of net debt (December 31, 2013 - $361.6 million). The net debt to equity ratio increased from 0.72 at December 31, 2013 to 0.77 at March 31, 2014.

NOTE 6. EXPLORATION AND EVALUATION ASSETS

Balance at December 31, 2012	$ 65,779
Acquisitions and purchases	16,268
Transferred to property, plant and equipment (note 7)	(1,698)
Dispositions	(1,526)
Exploration and evaluation expense	(14,798)
Balance at December 31, 2013	$ 64,025
Acquisitions and purchases	$ 262
Transferred to property, plant and equipment (note 7)	(348)
Dispositions	(202)
Exploration and evaluation expense	(597)
Balance at March 31, 2014	**$ 63,140**

Exploration and evaluation ("E&E") assets consist of the Company's land and exploration projects which are pending the determination of technical feasibility and commercial viability. In the period ended March 31, 2014, expense of $0.6 million was recognized ($5.6 million – March 31, 2013) for current and future land expiries for which management has neither budgeted nor planned further exploration. The remainder of E&E expense during the year relates to geophysical and geological activities which have been undertaken prior to the ownership of land and lease rights.

NOTE 7. PROPERTY AND EQUIPMENT

Cost:	Oil & gas properties	Office equipment	Total
Balance at December 31, 2012	$ 892,335	$ 219	$ 892,554
Additions	101,621	–	101,621
Acquisitions	423,067	–	423,067
Changes in decommissioning provision	59,637	–	59,637
Transfers from E&E assets (note 5)	1,698	–	1,698
Disposals	(61,704)	–	(61,704)
Balance at December 31, 2013	$ 1,416,654	$ 219	$ 1,416,873
Additions	38,099	–	38,101
Changes in decommissioning provision	(604)	–	(604)
Transfers from E&E assets (note 5)	348	–	348
Balance at March 31, 2014	**$ 1,454,497**	**$ 219**	**$ 1,454,718**
Accumulated depletion, depreciation and impairment losses:			
Balance at December 31, 2012	$ 223,007	$ 219	$ 223,226
Depletion and depreciation expense	134,725	–	134,725
Impairment expense	49,519	–	49,519
Disposals	(35,202)	–	(35,202)
Balance at December 31, 2013	$ 372,049	$ 219	$ 372,268
Depletion and depreciation expense	46,331	–	46,331
Balance at March 31, 2014	**$ 418,380**	**$ 219**	**$ 418,599**
Net Carrying Value:			
December 31, 2013	1,044,605	–	1,044,605
March 31, 2014	**$ 1,036,117**	**–**	**$ 1,036,119**

The Company capitalized $1.0 million of general and administrative expenses ($0.9 million – March 31, 2013) and $0.4 million of share based compensation expenses ($0.3 million – March 31, 2013) directly related to development and production activities for the year ended March 31, 2014.

Future development costs on proved plus probable undeveloped reserves of $365 million as at March 31, 2014 are included in the calculation of depletion ($264 million – March 31, 2013).

NOTE 8. BANK INDEBTEDNESS

At March 31, 2014, the Company's dedicated bank facility consists of a revolving line of credit of $375 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 annual credit facility review is currently underway and the expiry of the 2014 annual revolving period was extended from April 30, 2014 to May 30, 2014, for administrative reasons.

Interest rates are based on the Bank of Canada prime rate, plus 1% to 2.5% as determined by a pricing grid using the Company's debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio for the preceding four quarters. The bank currently charges prime plus 1.75%, and the convertible debentures pay 6.25% interest annually. The effective interest rate on the total of bank indebtedness and convertible debentures for the three months ended March 31, 2014 was 4.5% (3.3% – March 31, 2013).

The Company's revolving credit facility contains standard commercial covenants for facilities of this nature, including a requirement for Twin Butte to maintain a current ratio of not less than 1.0:1.0. The current ratio is defined as the ratio of (i) current assets, excluding financial derivatives, plus any undrawn availability under the credit facility to (ii) current liabilities, excluding financial derivatives and the drawn portion of the credit facility. The facility also contains a covenant which limits the maximum volume of financial derivatives in the subsequent 12 months to 80% of current production. Covenants are tested at the end of each fiscal quarter and the Company is in compliance as at March 31, 2014.

NOTE 9. CONVERTIBLE DEBENTURES

On December 18, 2013, the Company completed the issuance of convertible unsecured subordinated debentures (the "Debentures") for gross proceeds of $85.0 million ($81.4 million net of issuance costs) at a price of $1,000 per debenture. The debentures pay interest at a rate of 6.25% per annum, payable in arrears on a semi-annual basis on June 30 and December 31 of each year, commencing on June 30, 2014. The debentures mature on December 31, 2018.

The debentures are convertible at the option of the holder into common shares at a fixed conversion price of $3.05 per share. After December 31, 2016, the Company may redeem the debentures in whole or part provided the common shares' weighted average trading price during a specified period prior to redemption is not less than 125% of the conversion price. As at March 31, 2014, no conversions or redemptions have occurred.

NOTE 10. 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 $182.1 million at March 31, 2014 ($181.8 million – December 31, 2013), based on a total future liability of $321.4 million ($318.6 million – December 31, 2013). 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. The estimated risk free and inflation rates remained unchanged from December 31, 2013 at 3% and 2%, respectively.

Changes to the decommissioning provision are as follows:

(000's)	**Period ended March 31, 2014**	Year ended December 31, 2013
Decommissioning provision, beginning of period	**181,758**	88,991
Liabilities incurred	**1,703**	4,555
Liabilities settled	**(311)**	(3,287)
Liabilities acquired from acquisitions	**–**	37,474
Liabilities reduced from dispositions	**(54)**	(3,543)
Effect of change in risk free rate (1)	**–**	28,890
Revisions in estimated cash outflows	**(2,307)**	26,192
Accretion of decommissioning provision	**1,359**	2,486
Decommissioning provision, end of period	**182,148**	181,758

(1) In 2013, these amounts include 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 11. 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 *($000's)*
Balance at December 31, 2012	248,312	523,226
Common shares issued pursuant to corporate acquisitions	54,012	116,126
Common shares issued pursuant to subscription receipts	35,898	70,001
Common shares issued under share award plan	2,155	4,911
Common shares issued pursuant to the DRIP and SDP	2,703	5,556
Share issue costs, net of tax	–	(2,574)
Balance at December 31, 2013	343,080	717,246
Common shares issued under share award plan	1,229	2,721
Common shares issued pursuant to the DRIP and SDP	762	1,653
Share issue costs, net of tax	–	(16)
Balance at March 31, 2014	**345,071**	**721,604**

During the period ended March 31, 2014, 1.2 million share and performance share awards were exercised by employees, resulting in the granting of 1.2 million shares (March 31, 2013 – 0.8 and 0.8 million shares).

The total number of shares reserved for share based payments is 34,507,121 (34,307,956 – December 31, 2013). As at March 31, 2014 there were 6,150,172 share and performance share awards, including reinvested dividends (5,352,603 – December 31, 2013) and 640,434 (640,434 – December 31, 2013) options outstanding under the plans or a total of 2.0% of outstanding shares.

Dividends declared during the period ended March 31, 2014 totaled $16.6 million ($12.6 million – March 31, 2013), equivalent to $0.048 per weighted average share ($0.051 per weighted average share – March 31, 2013). Of these dividends declared, $1.1 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 period ended March 31, 2013, $1.5 million was reinvested in shares through the DRIP.

Share-based payments

(a) Share award plan

The following table sets forth a reconciliation of outstanding share awards and related dividend and performance factor activity through March 31, 2014:

	Restricted share awards	Weighted average fair value at grant date	Performance share awards	Weighted average fair value at grant date
Outstanding at December 31, 2012	2,481,957	2.17	1,717,759	2.54
Granted	2,007,852	2.26	1,185,783	2.16
Granted - Performance factor	–	–	382,933	2.45
Reinvested dividends	285,691	2.30	169,458	2.44
Vested and converted to common shares	(1,288,758)	1.91	(842,791)	2.53
Forfeited	(426,199)	2.44	(321,082)	2.42
Outstanding at December 31, 2013	3,060,543	$ 2.32	2,292,060	$ 2.33
Granted	1,384,890	2.27	544,619	2.27
Reinvested dividends	79,247	2.28	47,977	2.26
Vested and converted to common shares	(666,281)	2.44	(562,736)	2.51
Forfeited	(30,147)	2.22	–	0.00
Outstanding at March 31, 2014	**3,828,252**	**$ 2.28**	**2,321,920**	**$ 2.26**

Twin Butte recorded share-based payment expense for the year ended March 31, 2014 was $1.2 million (March 31, 2013 – $1.4 million).

A 15% forfeiture rate were used to estimate the Company's share-based payment expense for the year ended March 31, 2014 (March 31, 2013 – 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. In the three months ended March 31, 2014, there has been no change in the outstanding number of stock options. As at December 31, 2013 and March 31, 2014, 640,434 options were outstanding at a weighted average exercise price of $2.72, of which, 457,567 were exercisable at a weighted average exercise price of $2.71.

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

	March 31, 2014			December 31, 2013		
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
$1.00 – 1.50	**1,667**	**1.31**	**1.01**	1,667	1.31	1.26
$2.01 – 2.50	**255,433**	**2.41**	**2.17**	255,433	2.41	2.41
$2.51 – 3.00	**223,334**	**2.67**	**2.12**	223,334	2.67	2.36
$3.01 – 3.50	**160,000**	**3.32**	**2.00**	160,000	3.32	2.25
	640,434	**2.72**	**2.11**	640,434	2.72	2.35

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 March 31	
	2014	2013
Net income (loss) for the period	**$ (15,240)**	$ (29,633)
Weighted average number of basic shares *(000's)*	**344,453**	249,311
Effect of dilutive securities:		
Stock options and share awards *(000's)*	**–**	–
Weighted average number of diluted shares *(000's)*	**344,453**	249,311
Net income (loss) per share basic *($)*	**(0.04)**	(0.12)
Net income (loss) per share diluted *($)*	**(0.04)**	(0.12)

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

Due to the net loss for the year ended March 31, 2014, share awards and stock options potentially convertible into 6.8 million shares have been excluded from the calculation of diluted net income (loss) for the period, as the impact would have been anti-dilutive. Convertible debentures have also been excluded from the calculation, as the conversion price was greater than the average share price during the period.

In the period ended March 31, 2014 and 2013, outstanding stock options, share awards, and convertible debentures were the only potentially dilutive instruments.

NOTE 12. GENERAL & ADMINISTRATION ("G&A") EXPENSE

	Three months ended March 31	
($000's)	**2014**	2013
Staff salaries and benefits	**$ 3,228**	$ 3,152
Rent and insurance	**400**	296
Office and other costs	**1,601**	1,585
Capitalized G&A	**(1,044)**	(874)
Overhead recoveries	**(1,091)**	(728)
	$ 3,094	$ 3,431

NOTE 13. FINANCE EXPENSE

	Three months ended March 31	
($000's)	**2014**	2013
Interest and bank charges	**$ 2,426**	$ 1,551
Interest on convertible debentures [1]	**1,328**	–
Accretion on convertible debentures [1]	**311**	–
Accretion on decommissioning provision	**1,359**	555
Total	**$ 5,424**	$ 2,106

(1) Convertible debentures were issued on December 13, 2013.

NOTE 14. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended March 31	
($000's)	**2014**	2013
Changes in non-cash working capital:		
Accounts receivable	**$ (18,297)**	$ 2,009
Deposits and prepaid expenses	**(817)**	(1,508)
Accounts payable and accrued liabilities	**13,830**	(6,684)
Dividends Payable	**32**	647
	$ (5,252)	$ (5,536)
Changes in non-cash working capital relating to:		
Operating activities	**$ 4,641**	$ (3,317)
Financing activities	**32**	647
Investing activities	**(9,925)**	(2,866)
	$ (5,252)	$ (5,536)

NOTE 15. PRIOR PERIOD COMPARATIVE AMOUNTS

During the first quarter of 2014, the Company completed a review of the presentation of petroleum and natural gas sales transactions and it was determined that certain transportation charges previously reported on a gross basis (sales are presented gross of transportation expense) are more appropriately reflected on a net basis (transportation expense is netted against sales). Prior period comparative amounts have been reclassified to conform to the current period presentation. This reclassification has a nil impact on both net income and cash flow from operations.

The impact is as follows:

($000's)	**Three months ended March 31, 2013**	Twelve months ended December 31, 2013
Petroleum and natural gas sales	**$ (2,104)**	$ (8,051)
Transportation	**$ (2,104)**	$ (8,051)
Net income / Cash flow from operations	**–**	–

NOTE 16. RELATED PARTY TRANSACTIONS

During the period ended March 31, 2014, the Company incurred related party costs totaling $0.8 million ($2.2 million – March 31, 2013) for oilfield services and legal counsel rendered by three companies of which an officer and director of Twin Butte is a director.

These costs were incurred in the normal course of business and were recorded at the amount exchanged between the parties. As at March 31, 2014, the Company had $0.2 million ($1.7 million – December 31, 2013) included in accounts payable and accrued liabilities related to these transactions.

NOTE 17. COMMITMENTS AND CONTINGENCIES

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

($000's)	2014	2015	2016	2017	2018	thereafter
	1,259	1,684	1,703	1,737	904	–

18. SUBSEQUENT EVENTS

Crude Oil Sales Price Derivative Contracts

Subsequent to March 31, 2014 the Company entered into several crude oil price derivatives. The average barrels and prices for these contracts are as follows:

Daily barrel (bbl) quantity	Term of contract	WTI (1) Fixed price per bbl ($CAD)
1,000	January 1, 2015 to June 30, 2015	$103.70
1,000	January 1, 2015 to December 31, 2015	$101.75

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

CORPORATE INFORMATION

OFFICERS

Jim Saunders
Chief Executive Officer

Claude Gamache
Vice President, Geosciences

Gordon Howe
Vice President, Land

Preston Kraft
Vice President, Engineering

Dave Middleton
Chief Operating Officer

Kent Porteous
Vice President, Business Development

R. Alan Steele
Vice President, Finance & CFO

Rob Wollmann
President

BOARD OF DIRECTORS

David Fitzpatrick (1) (3)
Chairman of the Board

Jim Brown (1) (3)

John Brussa (3)

Tom Greschner (2)

Jim Saunders

Warren Steckley (1) (2)

William A. (Bill) Trickett (2)

Member of:

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

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ENGINEERS

McDaniel & Associates Consultants Ltd.

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REGISTRAR & TRANSFER AGENT

Valiant Trust Company
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STOCK EXCHANGE LISTING

TSX
Trading Symbol "TBE"

TWIN BUTTE
ENERGY LTD.