TWIN BUTTE ENERGY LTD.

2014

SECOND QUARTER REPORT

HIGHLIGHTS

($000's, except per share amounts)	Three months ended June 30 2014	2013	% Change	Six months ended June 30 2014	2013	% Change
FINANCIAL						
Petroleum and natural gas sales	**152,566**	96,590	58%	**301,766**	166,250	82%
Funds flow [(1)]	**48,520**	33,058	47%	**99,904**	65,481	53%
Per share basic	**0.14**	0.13	8%	**0.29**	0.26	12%
Per share diluted	**0.14**	0.13	8%	**0.29**	0.26	12%
Net income (loss)	**7,181**	(6,082)	218%	**(8,059)**	(35,715)	77%
Per share basic	**0.02**	(0.02)	200%	**(0.02)**	(0.14)	86%
Per share diluted	**0.02**	(0.02)	200%	**(0.02)**	(0.14)	86%
Dividends declared	**16,599**	12,028	38%	**33,149**	24,008	38%
Dividends declared, Post DRIP	**14,771**	10,543	40%	**29,463**	21,271	39%
Capital expenditures [(2)]	**21,724**	14,871	46%	**59,615**	34,496	73%
Net debt [(3)]	**352,198**	193,750	82%	**352,198**	193,750	82%
OPERATING						
Average daily production						
Heavy crude oil (bbl per day)	**11,354**	13,974	-19%	**12,014**	13,932	-14%
Light & Medium crude oil (bbl per day)	**7,523**	614	1125%	**7,568**	698	984%
Natural gas (Mcf per day)	**12,122**	12,665	-4%	**12,161**	13,282	-8%
Natural gas liquids (bbl per day)	**212**	150	41%	**206**	206	0%
Barrels of oil equivalent (boe per day, 6:1)	**21,109**	16,849	25%	**21,815**	17,050	28%
% Oil and NGLs	**90%**	87%	3%	**91%**	87%	4%
Average sales price						
Heavy crude oil ($ per bbl)	**82.62**	68.01	21%	**78.00**	57.67	35%
Light & Medium crude oil ($ per bbl)	**89.73**	82.06	9%	**86.23**	73.86	17%
Natural gas ($ per Mcf)	**3.89**	3.80	2%	**4.98**	3.56	40%
Natural gas liquids ($ per bbl)	**76.76**	84.35	-9%	**82.27**	78.42	5%
Barrels of oil equivalent ($ per boe, 6:1)	**79.42**	63.00	26%	**76.42**	53.87	42%
Field netback ($ per boe) [(4)]						
Petroleum and natural gas sales	**79.42**	63.00	26%	**76.42**	53.87	42%
Royalties	**(15.43)**	(13.39)	15%	**(13.88)**	(11.25)	23%
Operating expenses	**(20.94)**	(22.92)	-9%	**(21.90)**	(22.40)	-2%
Transportation expenses	**(1.18)**	(1.72)	-31%	**(1.05)**	(1.34)	-22%
Field netback	**41.87**	24.97	68%	**39.59**	18.88	110%
Wells drilled						
Gross	**17.0**	12.0	42%	**51.0**	40.0	28%
Net	**17.0**	12.0	42%	**51.0**	40.0	28%
Success (%)	**100**	100	0%	**96**	93	3%
COMMON SHARES						
Shares outstanding, end of period	**346,261,772**	250,916,313	38%	**346,261,772**	250,916,313	38%
Weighted average shares outstanding – diluted	**347,994,331**	251,895,637	38%	**345,419,756**	250,965,960	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) Field netback is a non-GAAP measure calculated as the average per boe of the Company's oil and gas sales, less royalties, operating and transportation expenses. See also "Field Netback" in the Reader Advisory below.

HIGHLIGHTS OF TWIN BUTTE'S SUCCESSFUL SECOND QUARTER 2014 ARE AS FOLLOWS:

- Average second quarter production of 21,109 boe/d (90% liquids), an increase of 25% from second quarter 2013 while liquids weighting increased to 90% from 87% over the same periods. Light and medium oil represented 36% of production in the quarter compared to 4% in the second quarter of 2013.
- Second quarter funds flow of $48.5 million, or $0.14 per share, an increase of 47% from second quarter 2013. Operating cost reductions and higher corporate netbacks from the first quarter of 2014 were achieved.
- Completed an organic net capital program of $21.7 million including the drilling of 17 gross (17 net) wells at a 100% success rate. With the exception of one service well, 100% of the second quarter capital plan was focused on horizontal drilling activity with 50% of the wells focused in the Company's medium oil Provost area.
- Reinforced the financial sustainability of the Company's dividend with the total payout ratio for the quarter and year to date being 75% and 89% respectively. Twin Butte has declared $122.7 million ($0.47 per share) in dividends since January 2012 and maintained a cumulative all-in payout ratio of 90% since that time.
- Expanded the Company's Provost area medium oil drilling inventory to more than three years
- Certain selected financial and operational information for the three and six months ended June 30, 2014 and 2013 is outlined below and should be read in conjunction with Twin Butte's condensed interim financial statements for the three and six months ended June 30, 2014 and 2013 and accompanying management's discussion and analysis filed with the Canadian securities regulatory authorities which may be accessed through the SEDAR website (www.sedar.com) and also the Company's website.

CORPORATE

During the second quarter, Twin Butte accelerated its transition from largely a conventional target, vertical, heavy oil driller to a horizontal driller targeting more predictable production profile projects with a significant and growing medium oil presence in the Provost area. This transition will strengthen the Company's business model of delivering a long term stable dividend combined with moderate production growth by increasing the percentage of higher netback, more predictable decline, oil barrels in the Company. For the balance of the year, Twin Butte anticipates that substantially all of the remaining drilling program will be weighted to horizontals with approximately 75% of its activity focused in Provost. This shift strengthens Twin Butte's corporate sustainability, with an increased corporate netback based on lower operating costs, lower royalties and an increased weighting to higher valued medium crude. The Company's growing horizontal drilling inventory which has capital efficiencies comparable to Twin Butte's historical vertical heavy oil drilling inventory, and is in formations with a more predictable decline profile, will ensure this positive transition continues in future quarters.

FINANCIAL

Twin Butte's second 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 second quarter of 2014 the Company declared $16.6 million in dividends ($14.8 million post DRIP & SDP) which when combined with net $21.7 million in organic capital spending generated an all-in payout ratio of 75%. Over the past 2.5 years the Company has declared $122.7 million in dividends, or $0.47 per share, and maintained a cumulative all-in payout ratio of 90%.

Funds flow in the second quarter increased significantly (47%) from 2013 reaching $48.5 million or $0.14 per share. This compares to a 25% increase in production volumes over the same periods reinforcing the Company's transition to an increased weighting of higher netback barrels. The percentage of light and medium oil production in the quarter compared to the second quarter of 2013 has increased materially to 36% from 4%.

Operating costs in the second quarter were $20.94 per boe, down from $22.81 per boe in the first quarter of 2014, as operating improvements are beginning to be realized, lower propane and power costs, and as the percentage of lower operating cost Provost area volumes grow. As volumes grow in Provost this trend is expected to continue.

Strong Canadian oil prices combined with a continued contraction in the differential between light and heavy oil prices led to strong WCS (Western Canadian select heavy oil index) pricing in the quarter of $90.74 per bbl as compared to a second quarter 2013 average of $77.91 per bbl. The Company will continue to enhance its heavy oil pricing through rail car movement which currently represents approximately 40% of the Company's heavy oil productions.

Heavy oil differentials significantly contracted in early 2014 and forward market pricing has recently shown reduced volatility for the remainder of 2014 and 2015. Higher than anticipated WTI oil prices combined with the weaker exchange rate for the Canadian dollar has led to much higher base oil pricing for 2014 to date and is expected to continue through year-end. This has driven higher increased opportunity costs or realized hedging losses than normal as the hedge program reduces the volatility but limits the Company's participation in the pricing upside or more importantly as a dividend payer, the impact of pricing downturns. Twin Butte had a higher than usual percentage of production hedged through 2014 as a result of inherited hedge positions from an acquisition last fall. Hedging will continue to be an important component of the business plan providing a mechanism to reduce volatility and provide downside price protection or dividend protection, with a proactive hedging or risk management strategy.

The Company sold approximately $4.7 million in non-core assets in the second quarter of 2014. These dispositions 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 renewed its current bank facility in the second quarter at $365 million which provides substantial liquidity above the Company's drawn position of approximately $259 million as at June 30, 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 second quarter. Total net debt as at June 30, 2014 was $352.2 million, which was an $11.5 million reduction from the first quarter, while translating to an annualized debt to cash flow ratio at approximately 1.8 times.

OPERATIONS

The Company's second quarter capital plan was focused on horizontal well activity in its core medium oil area of Provost and its heavy oil property at Wildmere. The $21.7 million capital program included the drilling of 17 gross wells (17 net) of which 16 were horizontal and one service well.

At Provost, 8 horizontal wells were drilled in the second quarter of 2014 (23 horizontal wells year-to-date) with an additional 13 horizontals drilled thus far in the third quarter. The target play drilled to date has been the Dina and Cummings oil over water project. 2014 well productivity has on average been consistent with the over 100 similar wells drilled on the property since 2010 by Twin Butte and the previous operator, with first three month average production of 70 boe per day. The Company is currently reviewing results of a full field reservoir simulation study on one its more successful horizontally drilled Provost pools. Early indications suggest drilling activity can be expanded on the initial pool, and likely replicated on other under-exploited pools in Provost that Twin Butte controls. The Company intends to validate via drilling, the model results later in 2014. With the repeatable success, a more predictable decline profile and the identified and expanding inventory, the Dina/Cummings play will continue to be a focus for the company for the foreseeable future.

As the Company's geological understanding at Provost grows, the potential of several other zones is becoming apparent. In the third quarter Twin Butte has drilled and fracture stimulated its first two Sparky oil wells with the wells both expected on stream imminently. Recently drilled offsetting competitor wells have demonstrated initial productivity of 95 boe per day, per well, and duplication of these results will generate capital efficiencies comparable with the current Dina and Cummings results. Based on current land holdings and geological mapping the Company has identified more than 100 similar potential drilling locations.

Mapping of the multiple, hydrocarbon charged, lithic channels which criss-cross the Company's acreage has identified numerous new drilling opportunities. Drilling is scheduled to begin on the lithic channel play in the second half of 2014 with results expected before year end.

Overall, the Company anticipates drilling more than 55 wells at Provost in 2014.

The Company's expanding operations in Provost are improving the Company's dividend sustainability with higher netback barrels, as a result of higher realized pricing on the area's medium quality oil, which along with lower operating and royalty costs, provides improved netbacks per boe. Field netbacks in Provost in the second quarter averaged approximately $56/boe compared to about $34/boe on the Company's existing heavy oil operations. The Company is focused on increasing production of our medium barrels up to the 45-50% range over the next 12 months, which has the potential to increase corporate cash flow by approximately 10% in a flat pricing and flat production scenario. As the Company's Provost production weighting increases, so will the area's cash flow generation capacity as a percentage of the overall Company.

Twin Butte continued its horizontal heavy oil development in Wildmere, Alberta with 8 horizontal wells drilled in the second quarter. The Wildmere asset has seen approximately 50 horizontal wells drilled on the property over the past 2 years with upward of an additional 15 horizontal locations planned for the remainder of the year. These wells are delivering field netbacks of approximately $50 per boe year-to-date. The Company is currently evaluating various secondary recovery schemes, which have been successfully deployed on the legacy vertically developed portions of the pool, to further enhance the economic return of this asset. Similar horizontal heavy oil opportunities have been identified on Twin Butte lands, primarily in the Lloydminster area, which the Company intends to develop over the next several quarters.

Average production for the second quarter of 2014 was 21,109 boe per day. With an active third quarter capital plan of approximately $50 million, drilling approximately 40 wells, the Company anticipates Corporate production will grow into the fourth quarter and believe the Company is on track to meet its 2014 exit production guidance of 22,500 boe per day.

OUTLOOK

As noted in the Company's first quarter 2014 report the corporate transition from a vertical heavy oil to a horizontal medium and heavy oil driller has commenced and is ongoing. As with any strategic transition results do not happen overnight and measurement of success must be relative. The Company's expanding capital focus on medium oil in Provost is showing positive results. Higher revenue medium oil volumes are growing as a percentage of corporate production, and overall corporate operating costs and netbacks are improving. Although early, these are positive indications of where the Company's strategic focus will lead.

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 will continue to match its capital plan to forecast cash flow less dividends ensuring the dividends sustainability. Positive improvements in corporate netback and a growing inventory of strong capital efficiency horizontal drilling inventory in reservoirs with more predictable decline profiles allows Twin Butte to remain confident in the long term sustainability of the dividend. 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.

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 Company's current financial forecast continues to show a total annual 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 production predictability and dividend sustainability, while providing a platform for moderate growth over the longer term.

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 predictable oil based play types. Twin Butte is well positioned to provide shareholders with a sustainable dividend with moderate growth potential over the 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

August 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 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 heading "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/Field Netback

The reader is also cautioned that this report contains the terms operating netback and field netback, both of which are not a recognized measure under GAAP. Field netback 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. Operating netback is the field netback, adjusted for commodity hedging gains or losses. Management uses these measures 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 these measures 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 these measures 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 report are made as at the date of this report and Twin Butte does not undertake any obligation to update publicly or to revise any of the forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

Dated as of August 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 and six months ended June 30, 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 boe 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 June 30		Six months ended June 30	
	2014	2013	**2014**	2013
Sales *($000's)*				
Heavy oil	**85,362**	86,480	**169,611**	145,431
Light & Medium oil	**61,430**	4,586	**118,122**	9,331
Natural gas	**4,292**	4,375	**10,966**	8,564
Natural gas liquids	**1,482**	1,149	**3,067**	2,924
Total petroleum and natural gas sales	**152,566**	96,590	**301,766**	166,250
Average Daily Production				
Heavy oil (bbl/day)	**11,354**	13,974	**12,014**	13,932
Light & medium oil (bbl/day)	**7,523**	614	**7,568**	698
Natural gas (Mcf/day)	**12,122**	12,665	**12,161**	13,282
Natural gas liquids (bbl/day)	**212**	150	**206**	206
Total (boe/d)	**21,109**	16,849	**21,815**	17,050
% oil and liquids production	**90%**	87%	**91%**	87%
Average Twin Butte Realized Commodity Prices (1)				
Heavy oil ($ per bbl)	**82.62**	68.01	**78.00**	57.67
Light & Medium oil ($ per bbl)	**89.73**	82.06	**86.23**	73.86
Natural gas ($ per Mcf)	**3.89**	3.80	**4.98**	3.56
Natural gas liquids ($ per bbl)	**76.76**	84.35	**82.27**	78.42
Barrels of oil equivalent ($ per boe, 6:1)	**79.42**	63.00	**76.42**	53.87
(1) The average selling prices reported are before realized derivative instrument gains/losses and transportation charges.				
Benchmark Pricing				
WTI crude oil (US$ per bbl)	**102.99**	94.22	**100.84**	94.3
Edmonton crude oil (Cdn$ per bbl)	**105.35**	93.03	**102.79**	90.84
WCS crude oil (Cdn$ per bbl)	**90.74**	77.91	**87.59**	71.04
AECO natural gas (Cdn$ per Mcf) (2)	**4.44**	3.35	**4.93**	3.19
Exchange rate (US$/Cdn$)	**1.09**	1.02	**1.10**	1.02

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

Sales for the three months ended June 30, 2014 were $152.6 million, as compared to $96.6 million for the three months ended June 30, 2013, representing an increase of $56.0 million or 58%. 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 $63.00 in the second quarter of 2013 to $79.42 during the second quarter of 2014. This 26% increase in realized price reflects an increase in the Canadian WTI benchmark due to an increase in the WTI benchmark as denoted in USD, as well as reductions in the Canadian to US dollar exchange rate. Compared to the prior year quarter, the WTI crude oil benchmark, post conversion to Canadian dollars, increased 17%. The WCS differentials remained consistent, as the WCS benchmark also increased 16%. Changes in our production mix due to a transition to higher-priced medium oil further increased the average realized price during the quarter.

Production also increased from 16,849 boe/d in the three months ended June 30, 2013 to 21,109 boe/d for the three months ended June 30, 2014. This increase of 4,260 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 volumes have steadily declined from the comparative periods. Natural gas sales currently account for 10% of production volumes, and only 3% of sales revenue.

Revenues for the six months ended June 30, 2014 were $301.8 million, as compared to $166.3 million for the six months ended June 30, 2013, representing an increase of $135.5 million or 81%. This increase in revenue is attributed to a 28% production increase and a 42% increase in realized pricing. Production increased from 17,050 boe/d in the six months ended June 30, 2013 to 21,815 boe/d in the comparable period in 2014. The average realized commodity price before hedging increased from $53.87 per boe in the six months ended June 30, 2013 to $76.42 per boe in the comparable period of 2014.

ROYALTIES

	Three months ended June 30		Six months ended June 30	
($000's except per boe amounts)	**2014**	2013	**2014**	2013
Heavy Oil	**19,338**	18,401	**37,249**	30,644
Light & Medium oil	**8,585**	1,777	**14,533**	2,944
Natural Gas	**145**	418	**1,187**	532
NGLs	**1,579**	(71)	**1,848**	593
Total Royalties	**29,647**	20,525	**54,817**	34,713
Total royalties per boe	**15.43**	13.39	**13.88**	11.25
% of P&NG Sales	**19%**	21%	**18%**	20%

Royalties for the three months ended June 30, 2014 were $29.6 million, as compared to $20.5 million for the three months ended June 30, 2013. As a percentage of sales, the average royalty rate for the second quarter of 2014 decreased to 19%, compared to 21% in the second quarter of 2013. Royalty rates decreased from the prior year quarter due to 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. These decreases were partially offset by increased benchmark commodity prices and the corresponding provincial royalty calculation input prices for both heavy oil and gas properties. In Q2 2014, Heavy oil royalties averaged 23%, medium & light oil averaged 14% and gas averaged 3%.

Royalties for the six months ended June 30, 2014 were $54.8 million, as compared to $34.7 million for the six months ended June 30, 2013. As a percentage of revenues, the average royalty rate for the six months ended June 30, 2013 was 18%, compared to 20% in 2013. This decrease is also due to the addition of the reduced royalty Provost properties. In the six months ended June 30, 2014, heavy oil royalties averaged 22%, medium & light oil averaged 12% and gas averaged 11%.

OPERATING & TRANSPORTATION EXPENSE

	Three months ended June 30		Six months ended June 30	
($000's except per boe amounts)	**2014**	2013	**2014**	2013
Operating expense	**40,216**	35,148	**86,469**	69,122
Transportation	**2,275**	2,629	**4,152**	4,151
Total operating & transportation expense	**42,491**	37,777	**90,621**	73,273
Operating expense per boe	**20.94**	22.92	**21.90**	22.40
Transportation expense per boe	**1.18**	1.72	**1.05**	1.34
Total per boe	**22.12**	24.64	**22.95**	23.74

Operating expenses were $40.2 million or $20.94 per boe for the quarter ended June 30, 2014 as compared to $35.1 million or $22.92 per boe for the three months ended June 30, 2013. In comparison to the prior year quarter, production mix shifted toward additional volumes at the lower-cost Provost properties, propane and power costs were reduced, and spring breakup conditions were favorable, resulting in fewer additional costs when compared to 2013.

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.

Operating expenses were $86.5 million or $21.90 per boe for the six months ended June 30, 2014, as compared to $69.1 million or $22.40 for the six months ended June 30, 2013. The increase on an absolute dollar basis is attributable to increased volumes.

On a per boe basis, cost decreases are related to the production mix shift toward additional volumes at the lower-cost Provost properties, reduced propane and power costs, and a favorable spring break-up.

Transportation expenses for the three months ended June 30, 2014 were $2.3 million or 1.18 per boe compared to $2.6 million or $1.72 per boe in the prior year comparative quarter. Reductions in transportation in comparison to the prior quarter are also associated with favorable spring breakup conditions, which reduced the impact of hauling restrictions on transportation costs.

Transportation expenses for the six months ended June 30, 2014 were $4.2 million or $1.05 per boe compared to $4.2 million or $1.34 per boe in the prior year comparative period. Decreases over the six month period are also associated with reduced spring breakup costs.

The Company has combined operating and transportation costs of $22.12 per boe for the quarter, a decrease from $24.64 per boe for the comparable period of 2013. This 10% decrease is driven by both decreased operating and transportation 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 June 30		Six months ended June 30	
($000's except per boe amounts)	**2014**	2013	**2014**	2013
G&A expense	**6,274**	4,753	**11,503**	9,786
Capitalized G&A expense	**(1,195)**	(724)	**(2,239)**	(1,452)
Recoveries	**(620)**	(888)	**(1,711)**	(1,762)
Total net G&A expense	**4,459**	3,141	**7,553**	6,572
Total net G&A expense per boe	**2.32**	2.05	**1.91**	2.13
Transaction expense	**–**	–	**–**	55
Transaction expense per boe	**–**	–	**–**	0.02

General and administrative expenses, net of recoveries and capitalized G&A, were $4.5 million or $2.32 per boe for the current quarter as compared to $3.1 million or $2.05 per boe in the prior year comparative quarter. The Company's expenses increased slightly due to staff changes and Company growth, but were partially offset by increased capital spending which increased G&A recoveries.

Net G&A expense for the six month period ended June 30, 2014 was $7.6 million or $1.91 per boe, compared to $6.6 million or $2.13 per boe in the prior year comparative period. On a per boe basis, G&A has decreased, as production increased at a greater rate than G&A due to acquisition synergies. The Company targets G&A for 2014 to be less than $2.00 per boe.

SHARE-BASED PAYMENT EXPENSE

	Three months ended June 30		Six months ended June 30	
($000's except per boe amounts)	**2014**	2013	**2014**	2013
Total	**1,047**	1,204	**2,294**	2,575
Total per boe	**0.55**	0.79	**0.58**	0.83

During the three months ended June 30, 2014, the Company expensed $1.0 million in share-based payment expense as compared to $1.2 million in the three month period ended June 30, 2013. In the six months ended June 30, 2014, share-based payment expense was $2.3 million, as compared to $2.6 million in the comparable period of 2013. The Company awarded 184,354 share awards and 177,705 performance share awards in the second quarter of 2014 as compared to 105,648 share awards and 76,993 performance share awards in the second 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, increased pre-vesting forfeitures, and a decrease in the fair value of awards granted. Total share awards forfeited due to employee departures were 709,570 in the quarter versus 165,602 awards forfeited in the second quarter last year.

At June 30, 2014, the Company has 3,555,634 restricted share awards, 2,218,289 performance share awards and 540,434 options outstanding.

FINANCE EXPENSE

	Three months ended June 30		Six months ended June 30	
(000's except per boe amounts)	**2014**	2013	**2014**	2013
Interest and bank charges	**3,022**	2,096	**5,448**	3,647
Interest on convertible debentures (1)	**1,328**	–	**2,656**	–
Accretion on convertible debentures (1)	**310**	–	**621**	–
Accretion on decommissioning provision	**1,363**	598	**2,722**	1,153
Total finance expense	**6,023**	2,694	**11,447**	4,800
Total interest per boe	**2.27**	1.37	**2.05**	1.18
Total accretion per boe	**0.87**	0.39	**0.85**	0.38
Total finance expense per boe	**3.14**	1.76	**2.90**	1.56

(1) Convertible debentures were issued in December 2013.

For the three months ended June 30, 2014, finance charges were $6.0 million as compared to $2.7 million in the three month period ended June 30, 2013. This increase is due to increased debt levels, annual charges related to our bank line renewal, which was completed in May, and interest on the convertible debentures, issued in December 2013 with a face value of $85 million. For the six months ended June 30, 2014, finance charges also increased and were $11.4 million, as compared to $4.8 million in the prior year comparative period.

The Company's current interest charge on the bank line is prime of 3.0% plus a margin of 1.25% for a total rate of 4.25% and the Company's convertible debentures pay an interest rate of 6.25% annually. The combined effective interest rate for the three and six months ended June 30, 2014 was 5.1% and 4.8%, respectively, (4.0% and 4.8% - June 30, 2013) as Bankers Acceptances were utilized to reduce interest.

DERIVATIVE ACTIVITIES

	Three months ended June 30		Six months ended June 30	
(000's except per boe amounts)	**2014**	2013	**2014**	2013
Realized gain (loss)	**(23,099)**	7	**(40,767)**	9,548
Cash proceeds – Swaptions	**–**	–	**–**	7,943
Unrealized gain (loss) – Financial derivatives	**6,460**	(1,145)	**(14,870)**	(30,853)
Gain (loss) and proceeds on derivatives	**(16,639)**	(1,138)	**(55,637)**	(13,362)
Realized gain (loss) on derivatives per boe	**(12.02)**	0.01	**(10.32)**	3.09
Cash proceeds on derivatives per boe – Swaptions	**–**	–	**–**	2.58
Unrealized gain (loss) on derivatives per boe	**3.36**	(0.75)	**(3.77)**	(10.00)
Gain (loss) and proceeds per boe	**(8.66)**	(0.74)	**(14.09)**	(4.33)

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 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 Q3 2014 and 2015 production periods.

With derivative instruments, there is a risk that the counterparty could become illiquid or that Twin Butte may not have the actual sales volumes to offset the hedge position. To manage risk, the Company's counterparties on derivative instruments are major Canadian and international banks and the maximum volumes hedged for the subsequent 12 months are limited to 80% of current production, net of royalties.

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 assist the Company in maintaining low operating costs in these areas. Current contracts are for approximately 65% of current and 44% of estimated future power usage.

Realized gains/losses and cash proceeds

The Company realized total cash losses on financial derivatives of $23.1 million ($12.02 per boe) for the three month period ended June 30, 2014, compared to net cash proceeds of $nil ($0.01 per boe) for the prior year quarter. During the quarter, the total loss was due to fixed price swaps, and was comprised of a $22.4 million loss on crude oil sales price derivatives and a $0.7 million loss on natural gas sales price derivatives, as compared to a $0.8 million loss on crude oil sales price derivatives and a $0.8 million gain on natural gas sales price derivatives in the second quarter of 2013.

The Company realized total cash losses on financial derivatives in the amount of $40.8 million ($10.32 per boe) for the six month period ended June 30, 2014. This total loss was due to fixed price swaps. In the prior year, the total cash proceeds on financial derivatives was $17.5 million ($5.67 per boe) and 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 June 30, 2014, the Company has a net unrealized financial derivative liability in the amount of $47.1 million, as compared to a liability of $32.2 million at December 31, 2013. 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 gain on financial derivatives in the amount of $6.5 million for the three month period ended June 30, 2014 as compared to $1.1 million unrealized loss for the prior year comparative quarter. For the six months ended June 30, 2014, the Company recognized an unrealized loss on financial derivatives of $14.9 million ($30.9 million – June 30, 2013). This unrealized loss is due to an increase in forward WTI pricing for the second half of 2014 and the first half of 2015 and an increase in natural gas benchmark pricing when compared to December 31, 2013.

The following is a summary of derivatives as at June 30, 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	WCS (2) Fixed Price per bbl	Fixed price per bbl WCS (2) vs. WTI (1)	Fixed written call price per bbl WTI (1)	Fair market value *$000's*
3,500	January 1, 2014 to December 31, 2014	$CAD	$95.89				(9,259)
8,650	July 1, 2014 to September 30, 2014	$CAD	$94.69				(13,393)
500	July 1, 2014 to December 31, 2014	$CAD	$99.25				(1,015)
500	July 1, 2014 to September 30, 2014	$CAD	$106.50				(233)
7,500	October 1, 2014 to December 31, 2014	$CAD	$94.66				(9,960)
3,500	January 1, 2015 to December 31, 2015	$CAD	$99.76				(5,589)
1,000	January 1, 2015 to December 31, 2015	$USD	$94.60				(854)
1,000	January 1, 2015 to March 31, 2015	$CAD	$97.46				(842)
1,000	January 1, 2015 to March 31, 2015	$USD	$98.50				(107)
2,500	January 1, 2015 to June 30, 2015	$CAD	$105.88				1
1,000	April 1, 2015 to June 30, 2015	$CAD	$99.00				(526)
1,500	October 1, 2014 to December 31, 2014	$CAD		$75.00			(1,500)
500	January 1, 2015 to December 31, 2015	$CAD		$77.75			(805)
2,000	January 1, 2015 to June 30, 2015	$CAD		$78.03			(1,566)
1,000	January 1, 2014 to December 31, 2014	$CAD			$(22.00)		134
3,500	February 1, 2014 to December 31, 2014	$CAD			$(20.86)		1,192
1,000	April 1, 2014 to December 31, 2014	$CAD			$(22.60)		21
4,000	July 1, 2014 to December 31, 2014	$CAD			$(21.90)		596
3,650	July 1, 2014 to September 30, 2014	$CAD			$(21.59)		181
1,000	January 1, 2015 to December 31, 2015	$CAD			$(21.65)		99
1,300	January 1, 2014 to December 31, 2014	$CAD				$110.00	(191)
1,000	July 1, 2015 to December 31, 2015	$CAD				$101.00	(1,001)
1,000	July 1, 2015 to December 31, 2015	$USD				$92.50	(1,234)
Crude oil fair value position							(45,851)

(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	(1,219)
Natural gas fair value position			(1,219)

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	342
192	January 1, 2015 to December 31, 2015	$53.02	(378)
Power purchase contract fair value position			(36)

GAIN/LOSS ON DISPOSITIONS

During the six months ended June 30, 2014, the Company disposed of minor properties for net cash proceeds of $4.7 million ($3.3 million – June 30, 2013), resulting in a gain of $3.3 million ($7.5 million loss – June 30, 2013).

DEPLETION, DEPRECIATION & IMPAIRMENT

	Three months ended June 30		Six months ended June 30	
($000's except per boe amounts)	**2014**	2013	**2014**	2013
Depletion & Depreciation	**43,239**	30,332	**89,570**	60,974
Depletion & Depreciation per boe	**22.51**	19.78	**22.68**	19.76

For the three month period ended June 30, 2014, depletion and depreciation of capital assets was $43.2 million or $22.51 per boe compared to $30.3 million or $19.78 per boe for the prior year quarter. On an absolute basis this increase relates to increased production, and an increased depletion rate in the Heavy Oil CGU, following a reduction in reserves in the fourth quarter of 2013. The rate per boe also increased from the prior period quarter due to the Heavy Oil reserve decrease.

For the six month period ended June 30, 2014, depletion and depreciation of capital assets as $89.6 million, or $22.68 per boe, compared to $61.0 million or $19.76 per boe in the prior year comparative period.

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 $2.7 million expense for the three month period ended June 30, 2014 compared to $2.6 million recovery for the three month period ended June 30, 2013. This expense is the result of gains on unrealized derivative contracts. In the six month period ended June 30, 2014, deferred tax expense amounted to a $1.9 million recovery, as compared to a $12.5 million recovery in the prior year.

The Company has existing tax losses and pools of approximately $745 million at June 30, 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 June 30		Six months ended June 30	
($000's except per share amounts)	**2014**	2013	**2014**	2013
Net Income (loss)	**7,181**	(6,082)	**(8,059)**	(35,715)
Net Income (loss) per share	**0.02**	(0.02)	**(0.02)**	(0.14)

Net and comprehensive income for the three month period ended June 30, 2014 was $7.2 million, compared to a net loss of $6.1 million in the three months ended June 30, 2013, with the increase related to gains on disposition of non-core assets, and unrealized mark to market gains on derivatives. Net and comprehensive income for the six month period ended June 30, 2014 was a net loss of $8.1 million, compared to a net loss of $35.7 million in the prior year comparative period. The net loss in the current year is 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's except per share amounts)	**Q2 2014**	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012
Average production (boe/d)	**21,109**	22,529	19,960	16,263	16,849	17,254	17,531	13,752
Petroleum and natural gas sales (1)	**152,566**	149,200	104,578	115,709	96,590	69,660	86,657	71,805
Operating netback (per boe) (2)	**29.85**	28.72	24.92	26.13	24.98	24.12	26.27	33.80
Funds flow from operations (3)	**48,520**	51,384	36,978	34,899	33,058	32,423	37,754	38,119
Per share basic	**0.14**	0.15	0.12	0.14	0.13	0.13	0.16	0.19
Per share diluted	**0.14**	0.15	0.12	0.14	0.13	0.13	0.16	0.19
Net income (loss)	**7,181**	(15,240)	(88,028)	8,111	(6,082)	(29,633)	(5,381)	(7,411)
Per share basic	**0.02**	(0.04)	(0.28)	0.03	(0.02)	(0.12)	(0.02)	(0.04)
Per share diluted	**0.02**	(0.04)	(0.28)	0.03	(0.02)	(0.12)	(0.02)	(0.04)
Corporate acquisitions (4)	**–**	–	356,521	–	–	–	134,972	88,369
Capital expenditures (5)	**21,724**	37,890	33,632	9,048	14,871	19,625	38,530	17,369
Total assets	**1,152,659**	1,174,100	1,165,638	802,916	790,056	815,040	845,261	690,240
Net debt excluding financial derivatives	**352,198**	363,659	361,612	179,013	193,750	200,542	201,703	146,843

(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 and Q2 2014, increased production and high commodity prices resulted in 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. In Q2 2014, funds flow was above historical levels, but decreased from Q1 2014 due to slightly reduced production.

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. In Q2 2014 net income was due to unrealized gains on derivatives and gains on the sale of non-core assets.

DIVIDENDS

For the three months ended June 30, 2014, Twin Butte paid cash dividends of $14.6 million, while $2.0 million was invested in Twin Butte shares through the Dividend Reinvestment Program ("DRIP") and Stock Dividend Program ("SDP"), compared to $10.6 million paid in cash dividends and $1.4 million invested in shares in the second quarter of 2013. For the six months ended June 30, 2014, Twin Butte paid cash dividends of $29.5 million and $3.6 million was invested in Twin Butte shares through the DRIP and SDP ($21.1 million and $2.9 million – June 30, 2013).

Cash dividends declared for the three months ended June 30, 2014, which includes dividends declared and payable on June 30, 2014 and is net of the DRIP and SDP, were $14.8 million ($10.5 million – June 30, 2013). Cash dividends declared for the six months ended June 30, 2013 were $29.5 million ($21.3 million – June 30, 2013).

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 June 30		Six months ended June 30	
($000's except per share amounts)	**2014**	2013	**2014**	2013
Cash flow from operating activities	**42,577**	40,755	**98,292**	69,324
Expenditures on decommissioning liability	**394**	707	**703**	1,244
Change in non-cash working capital	**5,549**	(8,404)	**909**	(5,087)
Funds flow [1]	**48,520**	33,058	**99,904**	65,481
Funds flow per share	**0.14**	0.13	**0.29**	0.26
Dividends declared	**(16,599)**	(12,028)	**(33,149)**	(24,008)
Capital Expenditures [2]	**(21,724)**	(14,871)	**(59,615)**	(34,496)
Payout ratio [3]	**79%**	81%	**93%**	89%
Reinvested dividends (DRIP and SDP)	**1,828**	1,485	**3,686**	2,737
Cash dividends declared	**(14,771)**	(10,543)	**(29,463)**	(21,271)
Total payout ratio (net of DRIP and SDP) [3]	**75%**	77%	**89%**	85%

(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 in August 2012 and the SDP program was 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 and six month periods ended June 30, 2014, the total payout ratio was 75% and 89%, due to a seasonally low level of capital expenditures, and proceeds from dispositions. The Company expects this ratio to increase in Q3 and Q4 2014, due to increased capital expenditures.

Funds flow from operations for the three month period ended June 30, 2014 were $48.5 million, an increase from second quarter 2013 funds flow of $33.1 million, due to increased sales revenue. This represents $0.14 per diluted share compared to $0.13 per diluted share for in 2013, as increased funds flow outpaced the increased number of shares outstanding.

Funds flow from operations for the six month period ended June 30, 2014 were $99.9 million, an increase from funds flow of $65.5 million in the comparable period of 2013, due to increased sales revenue. This represents $0.29 per diluted share compared to $0.26 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)	**Q2 2014**	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012
Petroleum and natural gas sales (1)	**79.42**	73.58	56.95	77.32	63.00	44.86	53.73	56.76
Cash gain (loss) on financial derivatives	**(12.02)**	(8.71)	1.41	(10.87)	0.01	11.26	4.83	8.02
Royalties	**(15.43)**	(12.41)	(11.50)	(17.51)	(13.39)	(9.14)	(9.83)	(11.40)
Operating expense	**(20.94)**	(22.81)	(21.12)	(21.53)	(22.92)	(21.88)	(19.73)	(18.38)
Transportation expense (1)	**(1.18)**	(0.93)	(0.82)	(1.30)	(1.72)	(0.98)	(1.57)	(1.20)
Operating netback (2)	**29.85**	28.72	24.92	26.13	24.98	24.12	27.43	33.80
General and administrative expense	**(2.32)**	(1.53)	(1.92)	(1.62)	(2.05)	(2.21)	(2.07)	(2.22)
Transaction costs	**–**	–	(1.17)	–	–	(0.03)	(0.76)	(0.62)
Interest and bank charges	**(2.27)**	(1.85)	(1.70)	(1.18)	(1.37)	(1.00)	(1.18)	(1.00)
Funds flow from operations (3)	**25.26**	25.34	20.13	23.33	21.56	20.88	23.42	29.96

(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 June 30		Six months ended June 30	
($000's)	**2014**	2013	**2014**	2013
Land acquisition	**36**	1,041	**157**	1,051
Geological and geophysical	**324**	554	**558**	1,055
Drilling and completions	**16,111**	10,830	**41,888**	27,345
Equipping and facilities	**8,728**	4,816	**19,519**	10,571
Other	**1,196**	888	**2,239**	1,762
Development capital	**26,395**	18,129	**64,361**	41,784
Property acquisitions – Cash paid	**–**	–	**–**	–
Property dispositions – Cash received	**(4,671)**	(3,258)	**(4,746)**	(7,288)
Capital expenditures (1)	**21,724**	14,871	**59,615**	34,496
Net other additions to PP&E (2)	**4,160**	(13,667)	**4,112**	(2,362)
Total net additions to PP&E	**25,884**	1,204	**63,727**	32,134

(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 second quarter of 2014, the Company invested $26.4 million on development capital, an increase from $18.1 million in development capital invested in Q2 2013. The Company's development capital expenditures for the quarter were focused in the Provost and Wildmere areas, with successful drilling of 5 (5.0 net) oil wells at Wildmere; 4 (4.0 net) oil wells at Cadogan; 3 (3.0 net) wells at Meridian; as well as 5 (5.0 net) wells at various other oil properties. During the quarter, the Company also completed property dispositions for net proceeds of $4.7 million, compared to $3.3 million in 2013.

For the six months ended June 30, 2014, the Company invested $64.4 million on development capital, an increase from $41.8 million in the comparable period of 2013. Proceeds from property dispositions in 2014 totaled $4.7 million, compared to $7.3 million in the six months ended June 30, 2013.

Drilling Results

Three months ended June 30	2014		2013	
	Gross	**Net**	Gross	Net
Crude oil	**17**	**17.0**	12	12.0
Dry and abandoned	**–**	**–**	–	–
Total	**17**	**17.0**	12	12.0
Success rate (%)		**100%**		100%

Six months ended June 30	2014		2013	
	Gross	**Net**	Gross	Net
Crude oil	**49**	**49.0**	37	37.0
Dry and abandoned	**2**	**2.0**	3	3.0
Total	**51**	**51.0**	40	40.0
Success rate (%)		**96%**		93%

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 June 30, 2014	At Dec 31, 2013
Gross Acres	**915,391**	958,432
Net Acres	**378,992**	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 June 30		Six months ended June 30	
($000's)	**2014**	2013	**2014**	2013
Funds flow (1)	**48,520**	33,058	**99,904**	65,481
Annualized funds flow (2)	**194,080**	132,232	**199,808**	130,962
Net debt (3)	**352,198**	193,750	**352,198**	193,750
Net debt to annualized funds flow (4)	**1.8**	1.5	**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 June 30, 2014, the annualized net debt to funds flow ratio was 1.8, an increase from the prior year quarter, which was 1.5, but consistent with 1.8 in the first quarter of 2014. The increase from Q2 2013 is driven by an increase in debt associated with the corporate acquisition of Black Shire. Based on net debt of $352.2 million at June 30, 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 $106 million on the Company's dedicated credit facility of $365 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 June 30, 2014, the Company's dedicated bank facility consists of a revolving line of credit of $340 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 was completed in May 2014, with the current revolving period scheduled for expiry on April 30, 2015.

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 eight 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 June 30, 2014, the Company is not in default in relation to this agreement.

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 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 June 30, 2014, no conversions or redemptions have occurred.

SHARE CAPITAL

In the second quarter of 2014, 178,375 shares were issued on account of vested share and performance share awards that were exercised and 1,012,180 shares were issued for the DRIP and SDP dividend programs, compared to 479,755 shares issued on account of share awards, and 638,646 shares issued for the DRIP and SDP dividend programs in the second quarter of 2013.

As of August 13, 2014 the Company has 348,464,467 Common Shares, 540,434 stock options and 7,644,178 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 $182.7 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 June 30, 2014	Less than one year	One to three years	Three to five years	Total
Derivative liability	44,033	6,007	–	50,040
Bank indebtedness – principal (1)	–	258,663	–	258,663
Bank indebtedness – interest	10,347	–	–	10,347
Convertible debentures – principal (2)	–	–	85,000	85,000
Convertible debentures – coupon	10,625	10,625	10,625	31,875
Purchase obligations (3)	4,775	1,882	–	6,657
Other (4)	1,672	4,734	452	6,858
	71,452	281,911	96,077	449,440

(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 current renewal review was completed in May 2014. Management fully expects the facility to be extended in 2015.

(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 three months ended June 30, 2014, the Company incurred related party costs totaling $1.3 million ($1.0 million – June 30, 2013) for oilfield services and legal counsel rendered by three companies of which an officer and director of Twin Butte is a director. During the six month period ended June 30, 2014, the Company incurred related party costs totaling $2.1 million ($3.1 million – June 30, 2013).

These costs were incurred in the normal course of business and were recorded at the amount exchanged between the parties. As at June 30, 2014, the Company had $0.5 million ($1.7 million – December 31, 2013) included in accounts payable and accrued liabilities related to these transactions.

SUBSEQUENT EVENTS

On July 8, 2014, the Company completed a common share private placement, issuing 1,817,220 common shares at a price of $1.80 per common share to officers, directors and employees of Twin Butte for total gross proceeds of approximately $3.3 million. The price was based on the volume-weighted average share price on the Toronto Stock Exchange for the five trading days preceding the announcement of the private placement. This private placement allowed two recently appointed officers of Twin Butte to acquire initial shares of the Company. A number of directors, officers, and employees of Twin Butte also chose to participate in the offering. Proceeds from the placement will be used for general corporate purposes.

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 and six months ended June 30, 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 period.

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.

During the period ended June 30, 2014, the following standard was issued and is applicable in future periods:

i) *IFRS 15 Revenue from Contracts with Customers* — In May 2014, the IASB issued this standard which replaces IAS 18 Revenue, IAS 11 Construction Contracts, and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2017, with earlier adoption permitted. The Company is currently evaluating the impact of the standard on the financial statements.

A description of additional standards and interpretations issued in previous periods 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 the condensed interim financial statements are consistent with those of the previous year ended December 31, 2013.

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 June 30, 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 June 30, 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	June 30, 2014	December 31, 2013
ASSETS			
Current Assets			
Accounts receivable		**$ 66,021**	$ 48,674
Deposits and prepaid expenses		**5,143**	5,588
Derivative assets	4	**2,884**	2,228
		74,048	56,490
Non-current assets			
Derivative assets	4	**50**	518
Exploration and evaluation	6	**58,613**	64,025
Property and equipment	7	**1,019,948**	1,044,605
		$ 1,152,659	$ 1,165,638
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities		**$ 80,890**	$ 80,556
Dividend payable		**5,540**	5,489
Derivative liabilities	4	**44,033**	34,983
		130,463	121,028
Non-current liabilities			
Derivative liabilities	4	**6,007**	–
Bank indebtedness	8	**258,663**	252,181
Convertible debentures	9	**78,269**	77,648
Deferred taxes		**29,421**	31,348
Decommissioning provision	10	**182,665**	181,758
		685,488	663,963
Shareholders' Equity			
Share capital	11	**723,976**	717,246
Contributed surplus		**8,792**	8,818
Equity component of convertible debenture		**2,879**	2,879
Deficit		**(268,476)**	(227,268)
		467,171	501,675
		$ 1,152,659	$ 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 June 30 **2014**	2013	Six months ended June 30 **2014**	2013
Petroleum and natural gas sales	*15*	**$ 152,566**	$ 96,590	**$ 301,766**	$ 166,250
Royalties		**(29,647)**	(20,525)	**(54,817)**	(34,713)
Revenues		**$ 122,919**	$ 76,065	**$ 246,949**	$ 131,537
Expenses					
Operating		**40,216**	35,148	**86,469**	69,122
Transportation	*15*	**2,275**	2,629	**4,152**	4,151
General and administrative	*12*	**4,459**	3,141	**7,553**	6,572
Transaction costs		**–**	–	**–**	55
Share-based payments	*11*	**1,047**	1,204	**2,294**	2,575
Finance expense	*13*	**6,023**	2,694	**11,447**	4,800
Loss (gain) on derivatives	*4*	**16,639**	1,138	**55,637**	21,304
Exploration and evaluation expense	*6*	**2,475**	960	**3,072**	6,595
Loss (gain) on disposition of property and equipment		**(1,966)**	7,504	**(1,966)**	6,845
Loss (gain) on disposition of exploration asset		**(1,412)**	–	**(1,297)**	(3,208)
Depletion and depreciation	*7*	**43,239**	30,332	**89,570**	60,974
		112,995	84,750	**256,931**	179,785
Income (loss) before income taxes		**9,924**	(8,685)	**(9,982)**	(48,248)
Deferred tax expense (recovery)		**2,743**	(2,603)	**(1,923)**	(12,533)
Net Income (loss) and comprehensive income (loss)		**$ 7,181**	$ (6,082)	**$ (8,059)**	$ (35,715)
Net Income (loss) per share $					
Basic	*11*	**0.02**	(0.02)	**(0.02)**	(0.14)
Diluted	*11*	**0.02**	(0.02)	**(0.02)**	(0.14)

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

STATEMENT OF CASH FLOWS

(unaudited - Cdn$ thousands)	Note	Three months ended June 30 2014	Three months ended June 30 2013	Six months ended June 30 2014	Six months ended June 30 2013
Cash provided by (used in):					
OPERATING ACTIVITIES:					
Net income (loss)		**$ 7,181**	$ (6,082)	**$ (8,059)**	$ (35,715)
Adjustments for items not involving cash:					
Depletion and depreciation	7	**43,239**	30,332	**89,570**	60,974
Deferred tax expense (recovery)		**2,743**	(2,603)	**(1,923)**	(12,533)
Unrealized loss (gain) on derivatives	4	**(6,460)**	1,145	**14,870**	30,852
Finance expenses	13	**6,023**	2,694	**11,447**	4,800
Interest paid	13	**(4,350)**	(2,096)	**(8,104)**	(3,647)
Share-based payments	11	**1,047**	1,204	**2,294**	2,575
Exploration and evaluation expenses	6	**2,475**	960	**3,072**	6,595
Loss (gain) on disposition of property and equipment		**(1,966)**	7,504	**(1,966)**	6,845
Loss (gain) on disposition of exploration asset		**(1,412)**	–	**(1,297)**	(3,208)
Cash premiums on derivatives	4	**–**	–	**–**	7,943
Expenditures on decommissioning provision	10	**(394)**	(707)	**(703)**	(1,244)
Changes in non-cash working capital	14	**(5,549)**	8,404	**(909)**	5,087
		42,577	40,755	**98,292**	69,324
FINANCING ACTIVITIES					
Increase (decrease) in bank indebtedness	8	**(506)**	(13,427)	**6,482**	(9,052)
Share issue costs	11	**–**	–	**(22)**	–
Dividends paid		**(14,613)**	(10,651)	**(29,478)**	(21,104)
		(15,119)	(24,078)	**(23,018)**	(30,156)
INVESTING ACTIVITIES					
Expenditures on property and equipment		**(26,068)**	(16,684)	**(63,772)**	(39,888)
Expenditures on exploration and evaluation assets		**(327)**	(1,445)	**(589)**	(1,896)
Proceeds on disposition of property and equipment		**2,587**	3,258	**2,629**	3,818
Proceeds on disposition of exploration and evaluation assets		**2,084**	(20)	**2,117**	3,450
Changes in non-cash working capital	14	**(5,734)**	(1,786)	**(15,659)**	(4,652)
		(27,458)	(16,677)	**(75,274)**	(39,168)
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

(unaudited - Cdn$ thousands)	Note	Three months ended June 30 2014	Three months ended June 30 2013	Six months ended June 30 2014	Six months ended June 30 2013
Share capital					
Balance, beginning of period		**$ 721,604**	$ 526,625	**$ 717,246**	$ 523,226
Share issue costs, net of deferred tax	*11*	**–**	–	**(16)**	–
Common shares issued pursuant to the DRIP and SDP	*11*	**1,967**	1,360	**3,620**	2,863
Common shares issued under share award plan	*11*	**405**	1,072	**3,126**	2,968
Balance, end of period		**$ 723,976**	$ 529,057	**$ 723,976**	$ 529,057
Contributed surplus					
Balance, beginning of period		**$ 7,782**	$ 7,441	**$ 8,818**	$ 7,624
Share-based payments for share awards exercised	*11*	**(405)**	(1,073)	**(3,126)**	(2,969)
Share-based payments for share awards granted		**1,415**	1,505	**3,100**	3,218
Balance, end of period		**$ 8,792**	$ 7,873	**$ 8,792**	$ 7,873
Deficit					
Balance, beginning of period		**$ (259,058)**	$ (101,585)	**$ (227,268)**	$ (59,349)
Dividends	*11*	**$ (16,599)**	$ (12,028)	**$ (33,149)**	$ (24,631)
Net income (loss) and comprehensive income (loss)		**7,181**	(6,082)	**(8,059)**	(35,715)
Balance, end of period		**$ (268,476)**	$ (119,695)	**$ (268,476)**	$ (119,695)

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

For the periods ended June 30, 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 August 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.

During the period ended June 30, 2014, the following standard was issued and is applicable to the company in future periods:

i) *IFRS 15 Revenue from Contracts with Customers* — In May 2014, the IASB issued this standard which replaces IAS 18 Revenue, IAS 11 Construction Contracts, and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2017, with earlier adoption permitted. The Company is currently evaluating the impact of the standard on the financial statements.

A description of additional standards and interpretations issued in previous periods 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 June 30, 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.

	Level in	As at June 30, 2014		As at December 31, 2013	
($000's)	fair value hierarchy	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets					
Held For trading					
Derivative assets – oil and gas	Level 2	2,592	2,592	2,745	2,745
Derivative assets – power	Level 3	342	342	1	1
Loans and receivables					
Accounts receivable	Level 2	66,021	66,021	48,674	48,674
Deposits	Level 2	441	441	502	502
Financial Liabilities					
Held for trading					
Derivative liabilities – oil and gas	Level 2	49,662	49,662	34,983	34,983
Derivative liabilities – power	Level 3	378	378	–	–
Financial liabilities at amortized cost					
Accounts payable and accrued liabilities	Level 2	80,890	80,890	80,556	80,556
Dividends payable	Level 2	5,540	5,540	5,489	5,489
Bank indebtedness	Level 2	258,663	258,663	252,181	252,181
Convertible debentures	Level 2	78,269	77,682	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 June 30, 2014, there were no transfers between levels 1, 2 or 3.

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

($000's)	
Level 3, December 31, 2013	1
Change in fair value of power purchase derivatives	(37)
Level 3, June 30, 2014	**(36)**

(a) Risk Management Assets and Liabilities

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

	Three months ended June 30		Six months ended June 30	
($000's)	**2014**	2013	**2014**	2013
Realized gain (loss)	**(23,099)**	7	**(40,767)**	9,548
Unrealized gain (loss)	**6,460**	(1,145)	**(14,870)**	(30,852)
Gain (loss) on derivatives	**(16,639)**	(1,138)	**(55,637)**	(21,304)

During the period ended June 30, 2013, the Company also realized $7.9 million of cash premiums received for selling crude oil swaption derivative contracts (June 30, 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	**June 30, 2014**	December 31, 2013
Current asset	**2,884**	2,228
Non-current asset	**50**	518
Current liability	**(44,033)**	(34,983)
Non-current liability	**(6,007)**	–
Net derivative asset (liability) position	**(47,106)**	(32,237)

Derivative Summary

As at	**June 30, 2014**	December 31, 2013
Crude oil sales price derivatives	**(45,851)**	(31,707)
Natural gas sales price derivatives	**(1,219)**	(531)
Power purchase price derivatives	**(36)**	1
Net derivative asset (liability) position	**(47,106)**	(32,237)

Crude Oil Sales Price Derivatives

Daily barrel (bbl) quantity	Term of contract		WTI[1] Fixed price per bbl	WCS [2] Fixed Price per bbl	Fixed price per bbl WCS [2] vs. WTI [1]	Fixed written call price per bbl WTI [1]	Fair market value *$000's* ($CAD)
3,500	January 1, 2014 to December 31, 2014	$CAD	$95.89				(9,259)
8,650	July 1, 2014 to September 30, 2014	$CAD	$94.69				(13,393)
500	July 1, 2014 to December 31, 2014	$CAD	$99.25				(1,015)
500	July 1, 2014 to September 30, 2014	$CAD	$106.50				(233)
7,500	October 1, 2014 to December 31, 2014	$CAD	$94.66				(9,960)
3,500	January 1, 2015 to December 31, 2015	$CAD	$99.76				(5,589)
1,000	January 1, 2015 to December 31, 2015	$USD	$94.60				(854)
1,000	January 1, 2015 to March 31, 2015	$CAD	$97.46				(842)
1,000	January 1, 2015 to March 31, 2015	$USD	$98.50				(107)
2,500	January 1, 2015 to June 30, 2015	$CAD	$105.88				1
1,000	April 1, 2015 to June 30, 2015	$CAD	$99.00				(526)
1,500	October 1, 2014 to December 31, 2014	$CAD		$75.00			(1,500)
500	January 1, 2015 to December 31, 2015	$CAD		$77.75			(805)
2,000	January 1, 2015 to June 30, 2015	$CAD		$78.03			(1,566)
1,000	January 1, 2014 to December 31, 2014	$CAD			$(22.00)		134
3,500	February 1, 2014 to December 31, 2014	$CAD			$(20.86)		1,192
1,000	April 1, 2014 to December 31, 2014	$CAD			$(22.60)		21
4,000	July 1, 2014 to December 31, 2014	$CAD			$(21.90)		596
3,650	July 1, 2014 to September 30, 2014	$CAD			$(21.59)		181
1,000	January 1, 2015 to December 31, 2015	$CAD			$(21.65)		99
1,300	January 1, 2014 to December 31, 2014	$CAD				$110.00	(191)
1,000	July 1, 2015 to December 31, 2015	$CAD				$101.00	(1,001)
1,000	July 1, 2015 to December 31, 2015	$USD				$92.50	(1,234)
Crude oil fair value position							(45,851)

(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	(1,219)
Natural gas fair value position			(1,219)

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	342
192	January 1, 2015 to December 31, 2015	$53.02	(378)
Power purchase contract fair value position			(36)

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 June 30, 2014 and December 31, 2013 is as follows:

($000's)	**June 30, 2014**	December 31, 2013
Bank indebtedness	**258,663**	252,181
Convertible debentures	**78,269**	77,648
Working capital deficit (surplus) (1)	**15,266**	31,783
Net debt (2)	**352,198**	361,612
Shareholders' Equity	**467,171**	501,675
Net Debt to Equity (2)	**0.75**	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 June 30, 2014, the Company utilized $259 million of its dedicated $365 million credit facility. The bank debt, working capital deficit of $15 million and convertible debenture liability of $78 million resulted in $352 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 0.75 at June 30, 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		589
Transferred to property, plant and equipment (note 7)		(515)
Dispositions		(2,414)
Exploration and evaluation expense		(3,072)
Balance at June 30, 2014	**$**	**58,613**

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 six month period ended June 30, 2014, expense of $3.0 million was recognized ($6.6 million – June 30, 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.

During the six months ended June 30, 2014, Twin Butte completed the sale of non-core E&E assets for net proceeds of $2.1 million ($3.5 million – June 30, 2013). A $1.3 million gain was recognized on these transactions ($3.2 million – June 30, 2013).

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	65,008	–	65,008
Disposals	(2,438)	–	(2,438)
Changes in decommissioning provision	642	–	642
Transfers from E&E assets (note 5)	515	–	515
Balance at June 30, 2014	**$ 1,480,381**	**$ 219**	**$ 1,480,600**
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	89,570	–	89,570
Disposals	(1,186)	–	(1,186)
Balance at June 30, 2014	**$ 460,433**	**$ 219**	**$ 460,652**
Net Carrying Value:			
December 31, 2013	1,044,605	–	1,044,605
June 30, 2014	**$ 1,019,948**	**–**	**$ 1,019,948**

The Company capitalized $2.2 million of general and administrative expenses ($1.8 million – June 30, 2013) and $0.8 million of share based compensation expenses ($0.6 million – June 30, 2013) directly related to development and production activities for the period ended June 30, 2014.

Future development costs on proved plus probable undeveloped reserves of $376 million as at June 30, 2014 are included in the calculation of depletion ($264 million – June 30, 2013).

During the six months ended June 30, 2014, Twin Butte completed the sale of non-core properties for net proceeds of $2.6 million ($3.8 million – June 30, 2013). A $2.0 million gain was recognized on these transactions ($6.8 million – June 30, 2013).

NOTE 8. BANK INDEBTEDNESS

At June 30, 2014, the Company's dedicated bank facility consists of a revolving line of credit of $340 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 was completed in May 2014, with the current revolving period scheduled for expiry on April 30, 2015.

Interest rates are based on the Bank of Canada prime rate, plus 1% to 2.5% as determined by a pricing grid using the Company's debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio for the preceding four quarters. The bank currently charges prime plus 1.25%, and the convertible debentures issued in December 2013 pay 6.25% interest annually. The effective interest rate on the total of bank indebtedness and convertible debentures for the three and six months ended June 30, 2014 was 5.1%, and 4.8%, respectively. For the three and six months ended June 30, 2013, the effective interest rate on bank indebtedness was 4.0% and 4.8%, respectively.

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 not in default as at June 30, 2014.

NOTE 9. CONVERTIBLE DEBENTURES

On December 18, 2013, the Company completed the issuance of convertible unsecured subordinated 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 with the payment made 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 June 30, 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 $182.7 million at June 30, 2014 ($181.8 million – December 31, 2013), based on a total future liability of $319.1 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 June 30, 2014**	Year ended December 31, 2013
Decommissioning provision, beginning of period	**181,758**	88,991
Liabilities incurred	**2,557**	4,555
Liabilities settled	**(703)**	(3,287)
Liabilities acquired from acquisitions	**–**	37,474
Liabilities reduced from dispositions	**(1,754)**	(3,543)
Effect of change in risk free rate [(1)]	**–**	28,890
Revisions in estimated cash outflows	**(1,915)**	26,192
Accretion of decommissioning provision	**2,722**	2,486
Decommissioning provision, end of period	**182,665**	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	1,407	3,126
Common shares issued pursuant to the DRIP and SDP	1,775	3,620
Share issue costs, net of tax	–	(16)
Balance at June 30, 2014	**346,262**	**723,976**

During the six months ended June 30, 2014, 1.4 million share and performance share awards were exercised by employees, resulting in the granting of 1.4 million shares (1.3 million awards and 1.3 million shares – June 30, 2013).

The total number of shares reserved for share based payments is 34,626,177 (34,307,956 – December 31, 2013). As at June 30, 2014 there were 5,773,923 share and performance share awards, including reinvested dividends (5,352,603 – December 31, 2013) and 540,434 (640,434 – December 31, 2013) options outstanding under the plans or a total of 2.0% of outstanding shares.

Dividends declared during the six months ended June 30, 2014 totaled $33.1 million ($24.6 million – June 30, 2013), equivalent to $0.10 per weighted average share ($0.10 per weighted average share – June 30, 2013). Of these dividends declared, $2.5 million were reinvested in shares through the Dividend Reinvestment Program ("DRIP"), and $1.1 million were declared through the Stock Dividend Program ("SDP"), ($2.6 million and $0.1 million – June 30, 2013).

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 June 30, 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	1,569,244	2.26	722,324	2.25
Reinvested dividends	171,636	2.15	105,251	2.15
Vested and converted to common shares	(777,040)	2.43	(630,378)	2.50
Forfeited	(468,749)	2.27	(270,968)	2.39
Outstanding at June 30, 2014	**3,555,634**	**$2.27**	**2,218,289**	**$2.25**

Twin Butte recorded share-based payment expense for the six months ended June 30, 2014 was $2.3 million ($1.2 million – June 30, 2013).

A 15% forfeiture rate was used to estimate the Company's share-based payment expense for the six months ended June 30, 2014 (15% - June 30, 2013).

(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 six months ended June 30, 2014, no stock options were exercised, and 100,000 stock options were forfeited. As at June 30, 2014, 540,434 options were outstanding at a weighted average exercise price of $2.78, of which, 500,434 were exercisable at a weighted average exercise price of $2.79.

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

	June 30, 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**	**0.76**	1,667	1.31	1.26
$2.01 – 2.50	**155,433**	**2.41**	**1.89**	255,433	2.41	2.41
$2.51 – 3.00	**223,334**	**2.67**	**1.87**	223,334	2.67	2.36
$3.01 – 3.50	**160,000**	**3.32**	**1.75**	160,000	3.32	2.25
	540,434	**2.78**	**1.84**	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 June 30		Six months ended June 30	
($000's)	**2014**	2013	**2014**	2013
Net income (loss) for the period	**$ 7,181**	$ (6,082)	**$ (8,059)**	$ (35,715)
Weighted average number of basic shares *(000's)*	**345,604**	250,422	**345,420**	249,870
Effect of dilutive securities:				
Stock options and share awards *(000's)*	**2,340**	–	**–**	–
Weighted average number of diluted shares *(000's)*	**347,944**	250,422	**345,420**	249,870
Net income (loss) per share basic *($/share)*	**0.02**	(0.02)	**(0.02)**	(0.14)
Net income (loss) per share diluted *($/share)*	**0.02**	(0.02)	**(0.02)**	(0.14)

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

In calculating the weighted average number of diluted shares for the three months ended June 30, 2014, the Company excluded 538,767 options because the exercise price was greater than the average common share market price in the quarter. Also excluded were 370,264 unvested share awards because the compensation expense attributed to future services was greater than the average common share market price. Due to the net loss for the six months ended June 30, 2014, share awards and stock options potentially convertible into 6.3 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 both periods, as the conversion price was greater than the average share price during the three and six months ended June 30, 2014.

In the three and six months ended June 30, 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 June 30		Six months ended June 30	
($000's)	**2014**	2013	**2014**	2013
Staff salaries and benefits	**$ 4,147**	$ 2,901	**$ 7,375**	$ 6,053
Rent and insurance	**488**	195	**888**	491
Office and other costs	**1,639**	1,657	**3,240**	3,242
Capitalized G&A	**(1,195)**	(888)	**(2,239)**	(1,762)
Overhead recoveries	**(620)**	(724)	**(1,711)**	(1,452)
	$ 4,459	$ 3,141	**$ 7,553**	$ 6,572

NOTE 13. FINANCE EXPENSE

	Three months ended June 30		Six months ended June 30	
($000's)	**2014**	2013	**2014**	2013
Interest and bank charges	**$ 3,022**	$ 2,096	**$ 5,448**	$ 3,647
Interest on convertible debentures (1)	**1,328**	–	**2,656**	–
Accretion on convertible debentures (1)	**310**	–	**621**	–
Accretion on decommissioning provision	**1,363**	598	**2,722**	1,153
Total	**$ 6,023**	$ 2,694	**$ 11,447**	$ 4,800

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

NOTE 14. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended June 30		Six months ended June 30	
($000's)	**2014**	2013	**2014**	2013
Changes in non-cash working capital:				
Accounts receivable	**$ 950**	$ (541)	**$ (17,347)**	$ 1,468
Deposits and prepaid expenses	**1,262**	(490)	**445**	(1,998)
Accounts payable and accrued liabilities	**(13,495)**	7,649	**334**	965
Dividends Payable	**19**	18	**51**	665
	$ (11,264)	$ 6,636	**$ (16,517)**	$ 1,100
Changes in non-cash working capital relating to:				
Operating activities	**$ (5,549)**	$ 8,404	**$ (909)**	$ 5,087
Financing activities	**19**	18	**51**	665
Investing activities	**(5,734)**	(1,786)	**(15,659)**	(4,652)
	$ (11,264)	$ 6,636	**$ (16,517)**	$ 1,100

NOTE 15. PRIOR PERIOD COMPARATIVE AMOUNTS

During the first quarter of 2013, 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 June 30, 2013	Six months ended June 30, 2013	Twelve months ended Dec 31, 2013
Petroleum and natural gas sales	$ (1,907)	$ (4,011)	$ (8,051)
Transportation	$ (1,907)	$ (4,011)	$ (8,051)
Net income / Cash flow from operations	–	–	–

NOTE 16. RELATED PARTY TRANSACTIONS

During the three months ended June 30, 2014, the Company incurred related party costs totaling $1.3 million ($1.0 million – June 30, 2013) for oilfield services and legal counsel rendered by three companies of which an officer and director of Twin Butte is a director. During the six month period ended June 30, 2014, the Company incurred related party costs totaling $2.1 million ($3.1 million – June 30, 2013).

These costs were incurred in the normal course of business and were recorded at the amount exchanged between the parties. As at June 30, 2014, the Company had $0.5 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
	830	1,684	1,703	1,737	904	–

NOTE 18. SUBSEQUENT EVENTS

On July 8, 2014, the Company completed a common share private placement, issuing 1,817,220 common shares at a price of $1.80 per common share to officers, directors and employees of Twin Butte for total gross proceeds of approximately $3.3 million. The price was based on the volume-weighted average share price on the Toronto Stock Exchange for the five trading days preceding the announcement of the private placement.

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

HEAD OFFICE

Twin Butte Energy Ltd.
410, 396 - 11 Ave. SW
Calgary AB T2R 0C5
Phone: 403-215-2045
Fax: 403-215-2055
www.twinbutteenergy.com

AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants
Calgary, AB

BANKERS

National Bank of Canada
Calgary, AB

SOLICITORS

Burnet, Duckworth & Palmer LLP
Calgary, AB

ENGINEERS

McDaniel & Associates Consultants Ltd.

Calgary, AB

REGISTRAR & TRANSFER AGENT

Valiant Trust Company
Calgary, AB

STOCK EXCHANGE LISTING

TSX
Trading Symbol "TBE"

TWIN BUTTE
ENERGY LTD.