



**TWIN BUTTE**  
ENERGY LTD.

**2014**

THIRD QUARTER REPORT

## HIGHLIGHTS

(\$000's, except per share amounts)	Three months ended September 30			Nine months ended September 30		
	2014	2013	% Change	2014	2013	% Change
<b>FINANCIAL</b>						
Petroleum and natural gas sales	143,088	115,709	24%	444,854	281,959	58%
Funds flow <sup>(1)</sup>	53,699	34,899	54%	153,603	100,380	53%
Per share basic	0.15	0.14	7%	0.44	0.40	10%
Per share diluted	0.15	0.14	7%	0.44	0.40	10%
Net income (loss)	34,805	8,111	329%	26,746	(27,605)	197%
Per share basic	0.10	0.03	233%	0.08	(0.11)	173%
Per share diluted	0.10	0.03	233%	0.08	(0.11)	173%
Dividends declared	16,761	12,079	39%	49,910	36,709	36%
Dividends declared, Post DRIP	14,939	10,546	42%	44,468	32,314	38%
Capital expenditures <sup>(1)</sup>	43,884	9,027	386%	103,499	43,543	138%
Net debt <sup>(1)</sup>	355,918	179,012	99%	355,918	179,012	99%
<b>OPERATING</b>						
Average daily production						
Heavy crude oil (bbl per day)	10,962	13,541	-19%	11,660	13,800	-16%
Light & Medium crude oil (bbl per day)	7,780	501	1453%	7,639	632	1109%
Natural gas (Mcf per day)	12,280	12,111	1%	12,201	12,888	-5%
Natural gas liquids (bbl per day)	192	202	-5%	201	205	-2%
Barrels of oil equivalent (boe per day, 6:1)	20,981	16,263	29%	21,534	16,785	28%
% Oil and NGLs	90%	88%	3%	91%	87%	4%
Average sales price						
Heavy crude oil (\$ per bbl)	77.90	85.95	-9%	77.97	67.02	16%
Light & Medium crude oil (\$ per bbl)	83.31	96.12	-13%	85.23	79.76	7%
Natural gas (\$ per Mcf)	3.40	2.51	35%	4.45	3.23	38%
Natural gas liquids (\$ per bbl)	59.10	75.46	-22%	74.83	77.38	-3%
Barrels of oil equivalent (\$ per boe, 6:1)	74.13	77.34	-4%	75.67	61.53	23%
Field netback (\$ per boe) <sup>(1)</sup>						
Petroleum and natural gas sales	74.13	77.34	-4%	75.67	61.53	23%
Royalties	(14.98)	(17.51)	-14%	(14.24)	(13.29)	7%
Operating expenses	(20.01)	(21.53)	-7%	(21.28)	(22.12)	-4%
Transportation expenses	(1.17)	(1.30)	-10%	(1.09)	(1.33)	-18%
Field netback <sup>(1)</sup>	37.97	37.00	3%	39.06	24.79	58%
Wells drilled						
Gross	39.0	31.0	26%	90.0	71.0	27%
Net	36.7	31.0	18%	87.7	71.0	24%
Success (%)	97	92	5%	97	92	5%
<b>COMMON SHARES</b>						
Shares outstanding, end of period	349,923,736	252,059,154	39%	349,923,736	252,059,154	39%
Weighted average shares outstanding – diluted	350,821,419	252,285,450	39%	348,583,113	251,380,863	39%

(1) Funds flow, Corporate acquisitions, Capital expenditures, Net debt and Field netback are non-GAAP measures. Refer to "Non-GAAP Measures" in this MD&A for further discussion and reconciliation to GAAP measures if applicable.

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

- Reinforced the financial sustainability of the Company's dividend with the total payout ratio for the year to date being 96%. The Company's guidance for 2015 demonstrates dividend sustainability at forecast \$US80 WTI. Twin Butte has declared \$139.4 million (\$0.52 per share) in dividends since January 2012 and maintained a cumulative total payout ratio of 92.5% since that time.
- Approved a \$160 million 2015 capital budget, which based on a \$US 80.00 WTI oil price maintains production, grows cash flow by 10%, delivers a \$0.192 per share dividend, and holds the total payout ratio to under 100%.
- Record third quarter funds flow of \$53.7 million, (\$0.15 per share) an increase of 54% from third quarter 2013 and an increase of 11% from the second quarter of 2014. Operating cost reductions and higher medium and light oil weighting more than offset reduced realized pricing in the quarter leading to the record funds flow.
- Average third quarter production of 20,981 boe/d, an increase of 29% from third quarter 2013, while liquids weighting increased to 90% from 88% over the same periods. Light and medium oil represented 37% of production in the quarter compared to 3% in the third quarter of 2013.
- Completed an organic net capital expenditure program of \$43.9 million including the drilling of 39 gross (36.7 net) wells at a 97% success rate. The majority of the third quarter capital was focused on horizontal drilling activity with 70% of the wells being drilled in the Company's medium oil Provost area.
- Successfully drilled, completed and brought on stream the first of Twin Butte's Provost Sparky multi-frac horizontal wells, at costs below initial expectation and at rates above average competitor wells. This de-risking has established a new long term drilling inventory.

Certain selected financial and operational information for the three and nine months ended September 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 nine months ended September 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](http://www.sedar.com)) and also the Company's website.

### CORPORATE

During the third quarter, Twin Butte continued its ongoing transition to horizontal drilling on predictable production profile projects with a significant and growing medium oil presence in the Provost area. This transition has led to record funds flow for the corporation and has strengthened the Company's business objective of delivering a long term stable dividend combined with moderate growth, by increasing the percentage of higher netback, more predictable decline oil barrels in the Company.

The third quarter saw the Company expand its horizontal drilling inventory through the initial drilling and production from two new horizontally drilled, multi-frac completion plays in Provost, while delivering industry leading capital efficiencies.

For the foreseeable future, Twin Butte anticipates that the majority of its capital program will be weighted to horizontal development with approximately 75% of its activity focused in Provost.

### SUSTAINABLE BUSINESS MODEL

As the Company's asset base transitions, it is seeing the benefits even in a forecasted lower price environment for 2015. In 2015 the Provost area will provide approximately 78% of the corporate cash flow despite only averaging 50% of the production volumes. This area provides increased netbacks on a boe basis through a combination of higher revenues, lower operating costs, lower average royalty rates and a more predictable decline profile than our historic production base.

This transition will allow Twin Butte to sustain production levels for 2015 at approximately 21,500 boe per day while increasing cash flow by approximately 10% over 2014 levels and holding total payout at or below 100%. The early drilling results on the

two new plays targeting the Sparky and Lithic are encouraging when matched with offset production. While results are early, Twin Butte feels its current land position could lead to over 150 new drilling locations with continued success. These are new plays that had no reserves or locations booked in last year's reserve report.

On a long term basis Twin Butte is confident that the Company can continue to provide a sustainable dividend with moderate growth based on a disciplined capital program that will adjust to the cash flow variances that the commodity based industry brings.

## FINANCIAL

In the third quarter of 2014 the Company declared \$16.8 million in dividends (\$14.9 million post DRIP & SDP) which when combined with net \$43.9 million in organic capital spending generated an all-in quarterly payout ratio of 110% or 96% on a year to date basis. Over the past 2.75 years the Company has declared \$139.4 million in dividends, or \$0.52 per share, and maintained a cumulative all-in payout ratio of 92.5%.

Funds flow in the third quarter increased significantly (54%) from 2013 reaching a record \$53.7 million or \$0.15 per share. This compares to a 29% increase in production volumes over the same periods, reinforcing the Company's transition to an increased weighting of higher netback medium barrels. The percentage of light and medium oil production in the quarter compared to the third quarter of 2013 has increased materially to 37% from 3% and the company now anticipates this figure to approach 40% by year end.

Operating costs in the third quarter were \$20.01 per boe, down from \$20.94 in the second quarter and \$22.81 per boe in the first quarter of 2014, as operating improvements are being realized. As the percentage of Provost area, lower operating cost volumes grow, this trend is expected to continue.

Although WTI pricing in US dollars decreased close to \$6.00 per barrel from the second quarter, a weak Canadian dollar led to strong WCS (Western Canadian Select heavy oil index) pricing in the quarter of \$84.40 per barrel. The Company continued to enhance its heavy oil pricing through rail car movement which currently represents approximately 40% of the Company's heavy oil production.

The recent significant drop in current and forecast 2015 WTI pricing has created concerns in the financial marketplace. Although US dollar WTI pricing for 2015 is currently forecast to be just below \$80.00 per barrel, the combined effect of current and forecasted narrow differentials on light to heavy oil in combination with a continued weak Canadian dollar has somewhat sheltered WCS pricing to forecast levels of approximately \$68 per barrel for 2015. Consistent with the Company's historic risk management strategy to reduce cash flow volatility and provide dividend protection, Twin Butte has approximately 60% of its estimated first half 2015 and 30% of its estimated second half 2015 oil production (approximately 45% of estimated annual oil production) hedged at extremely attractive levels of \$80 per barrel of WCS. The pricing of these hedges reflect an approximate \$6 per bbl improvement in pricing over Twin Butte's 2014 hedge position and an approximate \$12 per barrel premium to the current 2015 forward price curve.

Net debt at the end of the third quarter was marginally higher than the end of the second quarter at \$355.9 million including the company's \$85 million convertible debenture translating to an annualized debt to cash flow ratio at approximately 1.65 times.

## OPERATIONS

The Company executed on a significant third quarter capital plan of net \$43.9 million focused on horizontal well activity in its core medium oil area of Provost and its heavy oil property at Wildmere. The program included the drilling of 39 gross wells (36.7 net) at a success rate of 97%. To the end of the third quarter the company has drilled 90 gross or 87.7 net wells, 69 (66.7 net) of which were horizontal.

At Provost, 26 horizontal wells were drilled in the third quarter of 2014 (46 horizontal wells year-to-date) with an additional 13 horizontals drilled thus far in the fourth quarter. With the Provost area anticipated to receive approximately 75% of the company's 2015 capital expenditures Twin Butte is pleased to report that expansion of the areas future drilling inventory is successfully happening with de-risking of both the Sparky and Lithic Channel projects during the second half of 2014.

The primary target play drilled to date at Provost has been the Dina and Cummings oil over water project. 2014 well results continue to be consistent with the 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. During the third quarter, the Company's program successfully targeted a combination of new pools, pool extensions and infill opportunities which continued to enhance the Company's future drilling inventory on the play. With the repeatable success and a more predictable decline profile, the Dina/Cummings play will continue to be a focus for the company in 2015.

In the third quarter, Twin Butte drilled its first four Sparky horizontal oil wells with an additional two wells drilled to date in the fourth quarter. The first two wells drilled have been producing for in excess of two months with current average production of approximately 140 barrels per day per well. Completed well costs in the Sparky were under \$1.3 million per well, reinforcing the Company's execution capabilities. The Company has established a significant land base and potential drilling inventory for the Sparky play. Recently drilled offsetting competitor wells have demonstrated average initial productivity of 95 boe per day, based on this and Twin Buttes recent success the company will be expanding its focus in this play in 2015.

In addition the detailed mapping and seismic interpretation of the multiple, hydrocarbon charged Lithic channels which criss-cross Twin Butte's acreage has identified numerous new drilling opportunities. Late in the third quarter the company drilled its first area Lithic well and has subsequently drilled two additional wells to further de-risk the Company's land position, similar to what has been done in the Sparky. Production results from the initial Lithic wells will be available by year end.

The Company has been actively consolidating and expanding its Provost land position through swaps; crown land purchases, and farm in arrangements. Twin Butte's significant land position in Provost and ownership and control of extensive infrastructure will provide a competitive edge to ensure the company meets and exceeds its area growth plans for the next number of years.

Overall, the Company anticipates drilling more than 70 wells at Provost in 2014.

The Company's expanding operations in Provost are successfully driving a key component the company business plan. The transition from heavy oil focused production profile to a lighter medium weighted production profile has enhanced 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 third quarter averaged approximately \$52.00/boe compared to about \$34.00/boe on the Company's existing heavy oil operations.

Twin Butte continued its successful horizontal heavy oil development in Wildmere, Alberta with 8 horizontal wells drilled in the third quarter. The Wildmere asset has seen approximately 60 plus horizontal wells drilled on the property over the past 2 years. 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 third quarter of 2014 was 20,981 boe per day, essentially flat with the second quarter. The company is on track to show moderate growth in production in the fourth quarter of 2014 positioning the company for strong financial performance in 2015

## OUTLOOK

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.

The Company's focus on maintaining corporate production while increasing production of our medium barrels up from current 38 % to the 45-55 % range over the next 12 months is forecast to increase corporate cash flow by approximately 10%.

Though the recent decline in North American oil pricing has created uncertainties, we believe longer term in an \$US90 to \$95 WTI barrel. Twin Butte's hedging program provides cash flow certainty in this volatile pricing period. The Company's 2015 budget is based upon an \$US80 per barrel WTI price, 1.125 Cdn/US exchange rate, and a WTI to WCS differential of \$US 18.50 per barrel, and incorporating the Company's strong hedge position, is forecast to maintain production at 21,500 boe per day and grow cash flow 10% to \$225 million for 2015. This cash flow growth is a result of the ongoing transition to medium barrels, where the plan is to increase from a current weighting of about 38% to 45-55% medium of total oil barrels in the next 12

months. The company will closely monitor capital spending and adjust both positively and negatively with potential volatility in oil prices but currently feels comfortable with a 2015 capital plan of \$160 million. Based on current dividend of \$0.192 per year, the Company anticipates an all in payout ratio of just below 100 % in 2015.

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. Since January 2012 during volatile commodity and differential pricing as well as some challenging production performance Twin Butte as always maintained financial discipline to protect the company's balance sheet and dividend. We have demonstrated corporate sustainability and we will continue to demonstrate corporate sustainability even in an industry-challenging \$80 WTI oil environment.

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.

As noted earlier Twin Butte is confident with the current dividend level and therefore payment has been approved through to the end of the first quarter of 2015 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.

## **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

November 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](http://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. 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.

### Capital Expenditures

The reader is cautioned that this report contains the term Capital Expenditures which is not a recognized measure under GAAP. Capital Expenditures is calculated as the sum of expenditures on property and equipment, expenditures on exploration and evaluation assets, proceeds on disposition of property and equipment and proceeds on disposition of exploration and evaluation assets, as per the Statement of Cash Flows. Twin Butte considers this term to be a key measure of performance as it indicates cash used in investing activities. Twin Butte's method of calculating this measure may differ from other companies, and accordingly, they may not be comparable to measures used by other companies.

### 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](http://www.sedar.com)), or Twin Butte's website ([www.twinbutteenergy.com](http://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 November 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 nine months ended September 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](http://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.

**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.

**Non-GAAP Financial Measures** – Certain measures in this document do not have a standardized meaning as prescribed by IFRS 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. Management's reasoning to use the measures, as well as reconciliation to the closest comparable GAAP measure, is detailed in the section entitled, "Non-GAAP Financial Measures".

### 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](http://www.sedar.com) or the Company's website at [www.twinbutteenergy.com](http://www.twinbutteenergy.com).

## PETROLEUM AND NATURAL GAS SALES

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

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
<b>Sales (\$000's)</b>				
Heavy oil	78,567	107,079	248,178	252,509
Light & Medium oil	59,636	4,431	177,758	13,762
Natural gas	3,842	2,793	14,808	11,357
Natural gas liquids	1,043	1,406	4,110	4,331
<b>Total petroleum and natural gas sales</b>	<b>143,088</b>	<b>115,709</b>	<b>444,854</b>	<b>281,959</b>
<b>Average Daily Production</b>				
Heavy oil (bbl/day)	10,962	13,541	11,660	13,800
Light & medium oil (bbl/day)	7,780	501	7,639	632
Natural gas (Mcf/day)	12,280	12,111	12,201	12,888
Natural gas liquids (bbl/day)	192	202	201	205
<b>Total (boe/d)</b>	<b>20,981</b>	<b>16,263</b>	<b>21,534</b>	<b>16,785</b>
% oil and liquids production	90%	88%	91%	87%
<b>Average Twin Butte Realized Commodity Prices <sup>(1)</sup></b>				
Heavy oil (\$ per bbl)	77.90	85.95	77.97	67.02
Light & Medium oil (\$ per bbl)	83.31	96.12	85.23	79.76
Natural gas (\$ per Mcf)	3.40	2.51	4.45	3.23
Natural gas liquids (\$ per bbl)	59.10	75.46	74.83	77.38
Barrels of oil equivalent (\$ per boe, 6:1)	74.13	77.34	75.67	61.53
<small>(1) The average selling prices reported are before realized derivative instrument gains/losses and transportation charges.</small>				
<b>Benchmark Pricing</b>				
WTI crude oil (US\$ per bbl)	97.17	105.82	99.62	98.14
Edmonton crude oil (Cdn\$ per bbl)	97.02	105.18	100.97	95.62
WCS crude oil (Cdn\$ per bbl)	84.40	92.91	86.53	78.33
AECO natural gas (Cdn\$ per Mcf) <sup>(2)</sup>	3.81	2.31	4.56	2.90
Exchange rate (US\$/Cdn\$)	1.09	1.04	1.10	1.02

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

Sales for the three months ended September 30, 2014 were \$143.1 million, as compared to \$115.7 million for the three months ended September 30, 2013, representing an increase of \$27.4 million or 24%. Sales volumes increased from the prior period quarter, resulting in increased sales. Excluding the impact of derivative instruments, the average realized commodity price decreased from \$77.34 in the third quarter of 2013 to \$74.13 during the third quarter of 2014. Although partially offset by the Company's transition to higher-priced medium oil, the 4% decrease in realized price is due to decreases in WTI and WCS benchmark pricing. The WCS benchmark decreased 9%, due to a combination of widening differentials and the lower WTI benchmark (US\$), which decreased 8%. As the Company's revenues are substantially denominated in Canadian dollars, the weakened exchange rate has mitigated some of the effect of the WTI benchmark decrease.

Production also increased from 16,263 boe/d in the three months ended September 30, 2013 to 20,981 boe/d for the three months ended September 30, 2014. This increase of 4,718 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 nine months ended September 30, 2014 were \$444.9 million, as compared to \$301.8 million for the nine months ended September 30, 2013, representing an increase of \$143.1 million or 47%. This increase in revenue is attributed to a 28% production increase and a 23% increase in realized pricing. Production increased from 16,785 boe/d in the nine months ended September 30, 2013 to 21,534 boe/d in the comparable period in 2014. The average realized commodity price before hedging increased from \$61.53 per boe in the nine months ended September 30, 2013 to \$75.67 per boe in the comparable period of 2014.

## ROYALTIES

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
<i>(\$000's except per boe amounts)</i>				
Heavy Oil	19,307	23,423	56,557	54,068
Light & Medium oil	8,861	2,412	23,394	5,356
Natural Gas	217	(108)	1,404	424
NGLs	536	466	2,383	1,058
<b>Total Royalties</b>	<b>28,921</b>	<b>26,193</b>	<b>83,738</b>	<b>60,906</b>
<b>Total royalties per boe</b>	<b>14.98</b>	<b>17.51</b>	<b>14.24</b>	<b>13.29</b>
<b>% of P&amp;NG Sales</b>	<b>20%</b>	<b>22%</b>	<b>19%</b>	<b>21%</b>

Royalties for the three months ended September 30, 2014 were \$28.9 million, as compared to \$26.2 million for the three months ended September 30, 2013. As a percentage of sales, the average royalty rate for the third quarter of 2014 decreased to 20%, compared to 22% in the third 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, and decreased benchmark commodity prices and the corresponding provincial royalty calculation input prices. In Q3 2014, Heavy oil royalties averaged 25%, medium & light oil averaged 15% and gas averaged 6%.

Royalties for the nine months ended September 30, 2014 were \$83.7 million, as compared to \$60.9 million for the nine months ended September 30, 2013. As a percentage of revenues, the average royalty rate for the nine months ended September 30, 2013 was 19%, compared to 21% in 2013. This decrease is also due to the addition of the reduced royalty Provost properties and lower provincial royalty calculation input prices. In the nine months ended September 30, 2014, heavy oil royalties averaged 23%, medium & light oil averaged 13% and gas averaged 9%.

## OPERATING & TRANSPORTATION EXPENSE

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
<i>(\$000's except per boe amounts)</i>				
Operating expense	38,621	32,217	125,090	101,339
Transportation	2,255	1,944	6,407	6,096
<b>Total operating &amp; transportation expense</b>	<b>40,876</b>	<b>34,161</b>	<b>131,497</b>	<b>107,435</b>
<b>Operating expense per boe</b>	<b>20.01</b>	<b>21.53</b>	<b>21.28</b>	<b>22.12</b>
<b>Transportation expense per boe</b>	<b>1.17</b>	<b>1.30</b>	<b>1.09</b>	<b>1.33</b>
<b>Total per boe</b>	<b>21.18</b>	<b>22.83</b>	<b>22.37</b>	<b>23.45</b>

Operating expenses were \$38.6 million or \$20.01 per boe for the quarter ended September 30, 2014 as compared to \$32.2 million or \$21.53 per boe for the three months ended September 30, 2013. The increase on an absolute dollar basis is attributable to increased volumes. In comparison to the prior year quarter, the reduction on a per boe basis is attributed to a shift in production mix toward additional volumes at the lower-cost Provost properties and reduced propane costs per litre.

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

Operating expenses were \$125.1 million or \$21.28 per boe for the nine months ended September 30, 2014, as compared to \$101.3 million or \$22.12 for the nine months ended September 30, 2013. The increase on an absolute dollar basis is attributable to increased volumes. On a per boe basis, cost decreases are also related to the production mix shift toward additional volumes at the lower-cost Provost properties and reduced propane costs.

Transportation expenses for the three months ended September 30, 2014 were \$2.3 million or 1.17 per boe compared to \$1.9 million or \$1.30 per boe in the prior year comparative quarter. Reductions in transportation in comparison to the prior quarter are also associated with additional volumes on the Provost properties, which have lower transportation costs.

Transportation expenses for the nine months ended September 30, 2014 were \$6.4 million or \$1.09 per boe compared to \$6.1 million or \$1.33 per boe in the prior year comparative period. Decreases over the nine month period are also associated with additional volumes at Provost properties.

The Company has combined operating and transportation costs of \$21.18 per boe for the quarter, a decrease from \$22.83 per boe for the comparable period of 2013. This 7% decrease is driven by both decreased operating and transportation expenses.

### GENERAL AND ADMINISTRATIVE (“G&A”) EXPENSES

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
<i>(\$000's except per boe amounts)</i>				
G&A expense	5,804	4,250	17,307	14,036
Capitalized G&A expense	(1,366)	(900)	(3,605)	(2,662)
Recoveries	(1076)	(922)	(2,787)	(2,374)
Total net G&A expense	3,362	2,428	10,915	9,000
Total net G&A expense per boe	1.74	1.62	1.86	1.96
Transaction expense	–	–	–	55
Transaction expense per boe	–	–	–	0.01

General and administrative expenses, net of recoveries and capitalized G&A, were \$3.4 million or \$1.74 per boe for the current quarter as compared to \$2.4 million or \$1.62 per boe in the prior year comparative quarter. The Company's expenses increased 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 nine month period ended September 30, 2014 was \$10.9 million or \$1.86 per boe, compared to \$9.0 million or \$1.96 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 September 30		Nine months ended September 30	
	2014	2013	2014	2013
<i>(\$000's except per boe amounts)</i>				
Total	1,009	708	3,303	3,283
Total per boe	0.52	0.47	0.56	0.72

During the three months ended September 30, 2014, the Company expensed \$1.0 million in share-based payment expense as compared to \$0.7 million in the three month period ended September 30, 2013. In the nine months ended September 30, 2014, share-based payment expense was \$3.3 million, as compared to \$3.3 million in the nine months ended September 30, 2013.

The Company awarded 1,027,662 share awards and 1,124,907 performance share awards in the third quarter of 2014 as compared to 662,384 share awards and 536,822 performance share awards in the third quarter of 2013. Total share awards forfeited due to employee departures were 283,766 in the quarter versus 98,584 awards forfeited in the third quarter last year.

At September 30, 2014, the Company has 4,150,859 restricted share awards, 2,930,834 performance share awards and 540,434 options outstanding.

## FINANCE EXPENSE

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
<i>(000's except per boe amounts)</i>				
Interest and bank charges	2,826	1,768	8,274	5,415
Interest on convertible debentures <sup>(1)</sup>	1,328	–	3,984	–
Accretion on convertible debentures <sup>(1)</sup>	311	–	932	–
Accretion on decommissioning provision	1,381	608	4,103	1,761
<b>Total finance expense</b>	<b>5,846</b>	<b>2,376</b>	<b>17,293</b>	<b>7,176</b>
Total interest per boe	2.15	1.18	2.08	1.18
Total accretion per boe	0.88	0.41	0.86	0.38
<b>Total finance expense per boe</b>	<b>3.03</b>	<b>1.59</b>	<b>2.94</b>	<b>1.56</b>

(1) Convertible debentures were issued in December 2013.

For the three months ended September 30, 2014, finance charges were \$5.8 million as compared to \$2.4 million in the three month period ended September 30, 2013. This increase is due to increased debt levels and interest on the convertible debentures, issued in December 2013 with a face value of \$85 million. For the nine months ended September 30, 2014, finance charges also increased and were \$17.3 million, as compared to \$7.2 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 nine months ended September 30, 2014 was 4.7% and 4.8%, respectively, (5.1% and 5.0% – September 30, 2013).

## DERIVATIVE ACTIVITIES

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
<i>(000's except per boe amounts)</i>				
Realized gain (loss)	(12,076)	(16,260)	(52,843)	(6,711)
Cash proceeds – Swaptions	–	–	–	7,943
Unrealized gain (loss) – Financial derivatives	40,188	1,300	25,318	(29,553)
<b>Gain (loss) and proceeds on derivatives</b>	<b>28,112</b>	<b>(14,960)</b>	<b>(27,525)</b>	<b>(28,321)</b>
Realized gain (loss) on derivatives per boe	(6.26)	(10.87)	(8.99)	(1.46)
Cash proceeds on derivatives per boe – Swaptions	–	–	–	1.73
Unrealized gain (loss) on derivatives per boe	20.82	0.87	4.30	(6.45)
<b>Gain (loss) and proceeds per boe</b>	<b>14.56</b>	<b>(10.00)</b>	<b>(4.69)</b>	<b>(6.18)</b>

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 crude oil and natural gas fixed price swaps for 2015 production periods, and a foreign exchange contract designed to lock in the US to Canadian dollar exchange rate for a crude oil sales price derivative.

With derivative instruments, there is a risk that the counterparty could become illiquid or that Twin Butte may not have the actual sales volumes to offset the hedge position. To manage risk, the Company's counterparties on derivative instruments are major Canadian and international banks and the Company limits the maximum volumes hedged in relation to expected production.

The Company also enters into fixed price swaps with its power provider in order to stabilize future operating costs. To date in 2014, pre-hedge power costs have averaged \$62 per megawatt hour, but were as high as \$130 per megawatt hour in certain months. As power costs make up a significant percentage of operating expense in the Provost region, these contracts assist

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

#### **Realized gains/losses and cash proceeds**

The Company realized total cash losses on financial derivatives of \$12.1 million (\$6.26 per boe) for the three month period ended September 30, 2014, compared to a total cash loss of \$16.3 (\$10.87 per boe) for the prior year quarter. During the quarter, the total loss was due to fixed price swaps, and was comprised of a \$12.0 million loss on crude oil sales price derivatives and a \$0.1 million loss on natural gas sales price derivatives, as compared to a \$17.9 million loss on crude oil sales price derivatives and a \$1.6 million gain on natural gas sales price derivatives in the third quarter of 2013.

The Company realized total cash losses on financial derivatives in the amount of \$52.8 million (\$8.99 per boe) for the nine month period ended September 30, 2014. This total loss was due to fixed price swaps. In the prior year, the total cash proceeds on financial derivatives was \$1.2 million (\$0.27 per boe) and included a gain of \$6.7 million on fixed price swaps and \$7.9 million in proceeds from crude oil swaptions.

#### **Unrealized derivative assets and liabilities**

As at September 30, 2014, the Company has a net unrealized financial derivative liability in the amount of \$6.9 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, WCS differential, and AECO natural gas benchmark forward pricing for the remainder of 2014, partially offset by relatively weak pricing in 2015. If WTI, WCS and AECO pricing meet the forecasted benchmarks for 2014, these loss positions would be realized alongside increased sales due to the high commodity pricing and vice versa in 2015.

The Company has recognized an unrealized gain on financial derivatives in the amount of \$40.2 million for the three month period ended September 30, 2014 as compared to \$1.3 million unrealized gain for the prior year comparative quarter. For the nine months ended September 30, 2014, the Company recognized an unrealized gain on financial derivatives of \$25.3 million, compared to an unrealized loss of \$29.6 million for the nine months ended September 30, 2013. This unrealized gain is mainly due to a decrease in forward WTI pricing in 2015, which leads to financial derivatives in asset positions, as well as the settlement of liabilities in 2014, which were outstanding at the previous balance sheet date.

The following is a summary of derivatives as at September 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 <sup>(1)</sup> Fixed price per bbl	WCS <sup>(2)</sup> Fixed Price per bbl	Fixed price per bbl WCS <sup>(2)</sup> vs. WTI <sup>(1)</sup>	Fixed written call price per bbl WTI <sup>(1)</sup>	Fair market value \$000's, (\$CAD)
3,500	January 1, 2014 to December 31, 2014	\$CAD	\$95.89				(1,686)
500	July 1, 2014 to December 31, 2014	\$CAD	\$99.25				(87)
7,500	October 1, 2014 to December 31, 2014	\$CAD	\$94.66				(4,470)
3,500	January 1, 2015 to December 31, 2015	\$CAD	\$99.76				1,075
1,000	January 1, 2015 to December 31, 2015	\$USD	\$94.60				2,786
2,000	January 1, 2015 to March 31, 2015	\$CAD	\$103.00				549
2,500	January 1, 2015 to June 30, 2015	\$CAD	\$105.88				2,881
1,000	April 1, 2015 to June 30, 2015	\$CAD	\$99.00				-
1,500	October 1, 2014 to December 31, 2014	\$CAD		\$75.00			(1,322)
1,500	January 1, 2015 to December 31, 2015	\$CAD		\$79.25			581
2,000	January 1, 2015 to June 30, 2015	\$CAD		\$78.03			(336)
500	April 1, 2015 to June 30, 2015	\$CAD		\$80.00			80
1,000	January 1, 2014 to December 31, 2014	\$CAD			\$(22.00)		(515)
3,500	February 1, 2014 to December 31, 2014	\$CAD			\$(20.86)		(1,391)
1,000	April 1, 2014 to December 31, 2014	\$CAD			\$(22.60)		(539)
4,000	July 1, 2014 to December 31, 2014	\$CAD			\$(21.90)		(1,910)
2,000	October 1, 2014 to December 31, 2014	\$CAD			\$(18.83)		(449)
5,000	January 1, 2015 to December 31, 2015	\$CAD			\$(20.77)		(129)
1,300	January 1, 2014 to December 31, 2014	\$CAD				\$110.00	(3)
1,000	July 1, 2015 to December 31, 2015	\$CAD				\$101.00	(524)
1,000	July 1, 2015 to December 31, 2015	\$USD				\$92.50	(349)
Crude oil fair value position							(5,758)

(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	(461)
2,000	January 1, 2015 to December 31, 2015		\$3.79	(25)
Natural gas fair value position				(486)

### Foreign Exchange Contracts

(\$000's USD/month)	Term of contract	Fixed \$CAD/USD Prices		Fair Market Value \$000's
		Lower end <sup>(1)</sup>	Upper end	
2,877	January 1, 2015 to December 31, 2015	\$1.095	\$1.111	(546)
Foreign exchange contract fair value position				(546)

(1) The contract is structured whereby a monthly settlement price determined above 1.095 will settle at 1.111.

### 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	133
192	January 1, 2015 to December 31, 2015	\$53.02	(262)
Power purchase contract fair value position			(129)

### GAIN/LOSS ON DISPOSITIONS

During the three months ended September 30, 2014, the Company disposed of minor properties for net cash proceeds of \$1.2 million (\$22.0 million – September 30, 2013), resulting in a gain of \$1.0 million (\$9.0 million – September 30, 2013).

During the nine months ended September 30, 2014, the Company disposed of minor properties for net cash proceeds of \$6.0 million (\$29.3 million – September 30, 2013), resulting in a gain of \$4.3 million (\$5.4 million – September 30, 2013).

### DEPLETION, DEPRECIATION & IMPAIRMENT

(\$000's except per boe amounts)	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Depletion & Depreciation	43,364	29,303	132,934	90,277
Depletion & Depreciation per boe	22.47	19.58	22.61	19.70

For the three month period ended September 30, 2014, depletion and depreciation of capital assets was \$43.4 million or \$22.47 per boe compared to \$29.3 million or \$19.58 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 nine month period ended September 30, 2014, depletion and depreciation of capital assets as \$132.9 million, or \$22.61 per boe, compared to \$90.3 million or \$19.70 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 an \$11.6 million expense for the three month period ended September 30, 2014 compared to \$3.1 million expense for the three month period ended September 30, 2013. This expense is the result of gains on unrealized derivative contracts. In the nine month period ended September 30, 2014, deferred tax expense amounted to a \$9.7 million expense, as compared to a \$9.4 million recovery in the prior year.

The Company has existing tax losses and pools of approximately \$734 million at September 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)

(\$000's except per share amounts)	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Net Income (loss)	34,805	8,111	26,746	(27,605)
Net Income (loss) per share	0.10	0.03	0.08	(0.11)

Net and comprehensive income for the three month period ended September 30, 2014 was \$34.8 million, compared to net and comprehensive income of \$8.1 million in the three months ended September 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 nine month period ended September 30, 2014 was \$26.7 million, compared to a net loss of \$27.6 million in the prior year comparative period. The net income in the current year is mainly due to unrealized mark to market gains on derivatives.

## QUARTERLY FINANCIAL SUMMARY

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

<i>(\$000's except per share amounts)</i>	<b>Q3 2014</b>	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012
Average production (boe/d)	<b>20,981</b>	21,109	22,529	19,960	16,263	16,849	17,254	17,531
Petroleum and natural gas sales <sup>(1)</sup>	<b>143,088</b>	152,566	149,200	104,578	115,709	96,590	69,660	86,657
Operating netback (per boe) <sup>(2)</sup>	<b>31.71</b>	29.85	28.72	24.92	26.13	24.98	24.12	26.27
Funds flow <sup>(2)</sup>	<b>53,699</b>	48,520	51,384	36,978	34,899	33,058	32,423	37,754
Per share basic	<b>0.15</b>	0.14	0.15	0.12	0.14	0.13	0.13	0.16
Per share diluted	<b>0.15</b>	0.14	0.15	0.12	0.14	0.13	0.13	0.16
Net income (loss)	<b>34,805</b>	7,181	(15,240)	(88,028)	8,111	(6,082)	(29,633)	(5,381)
Per share basic	<b>0.10</b>	0.02	(0.04)	(0.28)	0.03	(0.02)	(0.12)	(0.02)
Per share diluted	<b>0.10</b>	0.02	(0.04)	(0.28)	0.03	(0.02)	(0.12)	(0.02)
Corporate acquisitions <sup>(2)</sup>	–	–	–	356,521	–	–	–	134,972
Capital expenditures <sup>(2)</sup>	<b>43,884</b>	21,724	37,890	33,632	9,048	14,871	19,625	38,530
Total assets	<b>1,150,834</b>	1,152,659	1,174,100	1,165,638	802,916	790,056	815,040	845,261
Net debt <sup>(2)</sup>	<b>355,918</b>	352,198	363,659	361,612	179,013	193,750	200,542	201,703

(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, Funds flow, Corporate acquisitions, Capital expenditures and Net debt are non-GAAP measures. Refer to "Non-GAAP Measures" in this MD&A for further discussion and reconciliation to GAAP measures if applicable.

Quarterly variances in sales are connected to changes in production volumes and prices. The Company completed the acquisition of Waseca Energy in Q4 2012, resulting in increased production. 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, Q2, and Q3 2014, increased production, changes in the Company's production mix 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. Funds flow in Q3 2014 again reached record highs, as both increased production and an increased netback contributed.

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 third 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 and Q3 2014 net income was due to unrealized gains on derivatives and gains on the sale of non-core assets.

## DIVIDENDS

Cash dividends declared for the three months ended September 30, 2014, which includes dividends declared and payable on September 30, 2014 and is net of the DRIP and SDP, were \$14.9 million (\$10.5 million – September 30, 2013). Cash dividends declared for the nine months ended September 30, 2013 were \$44.5 million (\$32.3 million – September 30, 2013).

## FUNDS FLOW FROM OPERATIONS <sup>(1)</sup>, TOTAL PAYOUT RATIO <sup>(1)</sup>, AND NETBACKS

Funds flow from operations (“Funds Flow”) and the payout and total payout ratios are non-GAAP measures. Refer to “Non-GAAP Measures” in this MD&A for further discussion and reconciliation to GAAP measures. Twin Butte considers these to be key measures of performance as they demonstrate the Company’s ability to generate the cash flow necessary to fund dividends and capital investment and ultimately, satisfy corporate strategy.

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
<i>(\$000's except per share amounts)</i>				
Funds flow <sup>(1)</sup>	<b>53,699</b>	34,899	<b>153,603</b>	100,380
Funds flow per share	<b>0.15</b>	0.14	<b>0.44</b>	0.40
Dividends declared	<b>(16,761)</b>	(12,079)	<b>(49,910)</b>	(36,709)
Capital Expenditures <sup>(1)</sup>	<b>(43,884)</b>	(9,027)	<b>(103,499)</b>	(43,543)
Payout ratio <sup>(1)</sup>	<b>113%</b>	60%	<b>100%</b>	80%
Reinvested dividends (DRIP and SDP)	<b>1,822</b>	1,533	<b>5,442</b>	4,395
Cash dividends declared	<b>(14,939)</b>	(10,546)	<b>(44,468)</b>	(32,314)
Total payout ratio (net of DRIP and SDP) <sup>(1)</sup>	<b>110%</b>	56%	<b>96%</b>	76%

(1) Funds flow, Capital expenditures, Payout ratio and Total payout ratio are non-GAAP measures. Refer to “Non-GAAP Measures” in this MD&A for further discussion and reconciliation to GAAP measures if applicable.

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 ongoing basis where required. For the three and nine month periods ended September 30, 2014, the total payout ratio was 110% and 96%, due to a seasonally high level of capital expenditures, partially offset by proceeds from dispositions. The Company expects this ratio to decrease in Q4 2014, as to maintain a ratio below 100% for the year.

Funds flow from operations for the three month period ended September 30, 2014 were \$53.7 million, an increase from third quarter 2013 funds flow of \$34.9 million, due to both increased netbacks associated with our transition to medium oil barrels and overall increased sales volumes. This represents \$0.15 per diluted share compared to \$0.14 per diluted share for in 2013, as increased funds flow outpaced the increased number of shares outstanding.

Funds flow from operations for the nine month period ended September 30, 2014 were \$153.6 million, an increase from funds flow of \$100.4 million in the comparable period of 2013, also associated with the transition to medium oil barrels and overall increased sales volumes. This represents \$0.44 per diluted share compared to \$0.40 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)	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012
Petroleum and natural gas sales <sup>(1)</sup>	<b>74.13</b>	79.42	73.58	56.95	77.34	63.00	44.86	53.73
Cash gain (loss) on financial derivatives	<b>(6.26)</b>	(12.02)	(8.71)	1.41	(10.87)	0.01	11.26	4.83
Royalties	<b>(14.98)</b>	(15.43)	(12.41)	(11.50)	(17.51)	(13.39)	(9.14)	(9.83)
Operating expense	<b>(20.01)</b>	(20.94)	(22.81)	(21.12)	(21.53)	(22.92)	(21.88)	(19.73)
Transportation expense <sup>(1)</sup>	<b>(1.17)</b>	(1.18)	(0.93)	(0.82)	(1.30)	(1.72)	(0.98)	(1.57)
Operating netback <sup>(2)</sup>	<b>31.71</b>	29.85	28.72	24.92	26.13	24.98	24.12	27.43
General and administrative expense	<b>(1.74)</b>	(2.32)	(1.53)	(1.92)	(1.62)	(2.05)	(2.21)	(2.07)
Transaction costs	–	–	–	(1.17)	–	–	(0.03)	(0.76)
Interest and bank charges	<b>(2.15)</b>	(2.27)	(1.85)	(1.70)	(1.18)	(1.37)	(1.00)	(1.18)
Funds flow netback <sup>(2)</sup>	<b>27.82</b>	25.26	25.34	20.13	23.33	21.56	20.88	23.42

(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 and Funds flow netback are non-GAAP measures. Refer to “Non-GAAP Measures” in this MD&A for further discussion and reconciliation to GAAP measures if applicable.

## CAPITAL EXPENDITURES

(\$000's)	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Land acquisition	<b>560</b>	271	<b>717</b>	1,323
Geological and geophysical	<b>219</b>	1,143	<b>777</b>	2,197
Drilling and completions	<b>29,979</b>	17,587	<b>71,867</b>	44,933
Equipping and facilities	<b>12,912</b>	10,803	<b>32,431</b>	21,374
Other	<b>1,366</b>	1,270	<b>3,605</b>	3,031
Development capital <sup>(1)</sup>	<b>45,036</b>	31,074	<b>109,397</b>	72,858
Property acquisitions – Cash paid	–	–	–	–
Property dispositions – Cash received	<b>(1,152)</b>	(22,047)	<b>(5,898)</b>	(29,315)
Capital expenditures <sup>(1)</sup>	<b>43,884</b>	9,027	<b>103,499</b>	43,543

(1) Development capital and Capital expenditures are non-GAAP measures. Refer to “Non-GAAP Measures” in this MD&A for further discussion and reconciliation to GAAP measures if applicable.

During the third quarter of 2014, the Company invested \$45.0 million on development capital, an increase from \$31.1 million in development capital invested in Q3 2013. The Company's development capital expenditures for the quarter were focused in the Provost and Wildmere areas, with successful drilling of 15 (15.0 net) oil wells at Provost; 8 (5.7 net) oil wells at Wildmere; 3 (3.0 net) wells at Lashburn; as well as 10 (10.0 net) wells at various other oil properties, 2 (2.0 net) service wells and one Strat-test D&A. During the quarter, the Company also completed property dispositions for net proceeds of \$1.2 million, compared to \$22.0 million in 2013.

For the nine months ended September 30, 2014, the Company invested \$109.4 million on development capital, an increase from \$72.9 million in the comparable period of 2013. Proceeds from property dispositions in 2014 totaled \$5.9 million, compared to \$29.3 million in the nine months ended September 30, 2013.

## Drilling Results

Three months ended September 30	2014		2013	
	Gross	Net	Gross	Net
Crude oil	38	35.7	28	28.0
Dry and abandoned	1	1.0	3	3.0
Total	39	36.7	31	31.0
Success rate (%)		97%		90%

Nine months ended September 30	2014		2013	
	Gross	Net	Gross	Net
Crude oil	87	84.7	65	65.0
Dry and abandoned	3	3.0	6	6.0
Total	90	87.7	71	71.0
Success rate (%)		97%		92%

## 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 September 30, 2014	At December 31, 2013
Gross Acres	909,894	958,432
Net Acres	374,228	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. Twin Butte considers these measures and the related ratio to be key measures of liquidity and the management of capital resources.

(\$000's)	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Funds flow <sup>(1)</sup>	53,699	34,899	153,603	100,380
Annualized funds flow <sup>(1)</sup>	214,796	139,596	204,804	133,840
Net debt <sup>(1)</sup>	355,918	179,012	355,918	179,012
Net debt to annualized funds flow <sup>(1)</sup>	1.7	1.3	1.7	1.3

(1) Funds flow, Annualized funds flow and Net debt are non-GAAP measures. Refer to "Non-GAAP Measures" in this MD&A for further discussion and reconciliation to GAAP measures if applicable.

For the three months ended September 30, 2014, the annualized net debt to funds flow ratio was 1.7, an increase from the prior year quarter, which was 1.3, but a decrease from 1.8 in the first half of 2014. The increase from Q3 2013 is driven by an increase in debt associated with the corporate acquisition of Black Shire. Based on net debt of \$355.9 million at September 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, has allowed Twin Butte to maintain a significant undrawn portion of \$127.9 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 September 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 six Canadian chartered or international banks and provides that advances may be made by way of Canadian prime rate and U.S. base rate loans, bankers' acceptances, LIBOR Loans, or standby letters of credit/guarantees. The facility contains standard commercial covenants for facilities of this nature, including a requirement for Twin Butte to maintain an adjusted current ratio of not less than 1.0:1.0, which includes the undrawn portion of the credit facility as a current asset. The facility also contains a covenant that limits financial commodity agreements to less than 80% the average daily production of the prior quarter at the time the commodity agreement is signed. As 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. Non-commodity financial instruments, such as power and currency agreements, are required by covenant to have a maximum term of 36 months, and aggregate amounts hedged must not be more than 60% of the facility's borrowing base. At September 30, 2014, the Company is in compliance with all debt covenants.

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

### SHARE CAPITAL

In the third quarter of 2014, 764,793 shares were issued on account of vested share and performance share awards that were exercised and 1,079,951 shares were issued for the DRIP and SDP dividend programs, compared to 318,232 shares issued on account of share awards, and 824,609 shares issued for the DRIP and SDP dividend programs in the third quarter of 2013.

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.

As of November 13, 2014 the Company has 349,891,291 Common Shares, 540,434 stock options and 7,202,297 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 \$185.1 million (December 31, 2013 – \$182.0 million) based on current legislation and estimated costs. Actual costs may differ from those estimated due to changes in legislation or actual costs.

Additional contractual obligations and commitments are as follows:

As at September 30, 2014	Less than one year	One to three years	Three to five years	Total
Derivative liability	14,977	726	–	15,703
Bank indebtedness – principal <sup>(1)</sup>	–	237,132	–	237,132
Bank indebtedness – interest	9,485	–	–	9,485
Convertible debentures – principal <sup>(2)</sup>	–	–	85,000	85,000
Convertible debentures – coupon	5,312	10,625	7,969	23,906
Purchase obligations <sup>(3)</sup>	4,281	941	–	5,222
Other <sup>(4)</sup>	1,678	3,427	1,338	6,443
	35,733	252,851	94,307	382,891

(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 September 30, 2014, the Company incurred related party costs totaling \$1.6 million (\$2.0 million – September 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 nine month period ended September 30, 2014, the Company incurred related party costs totaling \$3.7 million (\$5.1 million – September 30, 2013).

These costs were incurred in the normal course of business and were recorded at the amount exchanged between the parties. As at September 30, 2014, the Company had \$0.1 million (\$1.7 million – December 31, 2013) included in accounts payable and accrued liabilities related to these transactions.

## SUBSEQUENT EVENTS

### Crude Oil Sales Price Derivative Contracts

Subsequent to September 30, 2014 the Company entered into several crude oil sales price derivatives. The average barrels and prices for these contracts are as follows:

Daily barrel (bbl) quantity	Term of contract	Fixed price per bbl WCS <sup>(1)</sup> vs. WTI <sup>(2)</sup>
1,000	January 1, 2015 to March 31, 2015	\$(20.43)
3,000	January 1, 2015 to June 30, 2015	\$(20.45)
1,500	July 1, 2015 to December 31, 2015	\$(20.23)

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

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

### Natural Gas Sales Price Derivative Contracts

Subsequent to September 30, 2014 the Company also entered into a natural gas sales price derivative for 2,000 GJ/day during 2015 at a price of \$3.75, including an option to extend at the same price and volume during 2016.

### Power Purchase Price Derivative Contracts

Subsequent to September 30, 2014 the Company also entered into a power purchase price derivative for 96 megawatt hours per day during 2015 at a price of \$50.50 per megawatt.

## NON-GAAP FINANCIAL MEASURES

Certain measures in this document do not have a standardized meaning as prescribed by IFRS 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. Management's reasoning to use the measures, as well as reconciliation to the closest comparable GAAP measure, is detailed below.

### Funds Flow, Funds Flow Netback and Funds Flow – Annualized

Twin Butte uses the term "Funds Flow" and its derivatives, "Funds Flow Netback" and "Funds flow – Annualized" as indicators of financial performance, but the terms should not be considered an alternative to, or more meaningful than the closest comparable GAAP measure, "Cash provided by (used in) Operating Activities" as disclosed on the Statement of Cash Flows in the attached financial statements. Funds flow is presented in the Company's MD&A to assist management and investors in analyzing operating performance in the stated period. A reconciliation of Funds Flow to the Cash provided by (used in) Operating Activities is as follows:

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
<i>(\$000's except per boe amounts)</i>				
Cash provided by (used in) Operating Activities	55,108	12,253	153,400	81,577
Expenditures on decommissioning provision	1,556	588	2,259	1,832
Change in non-cash working capital (Operating)	(2,965)	22,058	(2,056)	16,971
<b>Funds flow</b>	<b>53,699</b>	<b>34,899</b>	<b>153,603</b>	<b>100,380</b>
Total boe in the period (000's)	1,930	1,496	5,879	4,582
<b>Funds flow netback (\$/boe)</b>	<b>27.82</b>	<b>23.33</b>	<b>26.13</b>	<b>21.91</b>
Annualizing factor	4.0	4.0	1.3	1.3
<b>Funds flow – Annualized</b>	<b>214,796</b>	<b>139,596</b>	<b>204,804</b>	<b>133,840</b>

## Net Debt

Twin Butte uses the term “Net Debt” as an indicator of financial performance and it is presented in the Company’s MD&A and Financial Statements to assist management and investors in analyzing total cash-based obligations in the stated period. A reconciliation of Net Debt to the Balance Sheet is as follows:

(\$000’s)	September 30, 2014	December 31, 2013
Bank Indebtedness	237,132	252,181
Convertible debentures	78,580	77,648
Working Capital Deficit (Surplus)	40,206	31,783
<b>Net Debt</b>	<b>355,918</b>	<b>361,612</b>

## Working Capital Deficit (Surplus)

Twin Butte uses the term “Working Capital Deficit (Surplus)” as an indicator of financial performance. This term is presented in the Company’s MD&A and Financial Statements to assist management and investors in analyzing net working capital amounts in the stated period. A reconciliation of Working Capital Deficit (Surplus) to the Balance Sheet is as follows:

(\$000’s)	September 30, 2014	December 31, 2013
Accounts receivable	(55,987)	(48,674)
Deposits and prepaid expenses	(5,386)	(5,588)
Accounts payable and accrued liabilities	95,981	80,556
Dividend Payable	5,598	5,489
<b>Working capital deficit (surplus)</b>	<b>40,206</b>	<b>31,783</b>

## Net debt to funds flow – annualized

“Net debt to funds flow – annualized” is a non-GAAP measure defined as the ratio of Net debt to Funds flow – annualized. Twin Butte uses this term to monitor whether funds flow from operations will be sufficient to cover all obligations, specifically the non-GAAP measure of net debt. Twin Butte considers this ratio to be a key measure of liquidity and management of capital resources.

## Operating netback, Field netback and Funds flow netback

“Operating netback”, “Field netback” and “Funds flow netback” are common metrics used in the oil and gas industry and are presented in the Company’s MD&A to assist management and investors to evaluate oil and gas operating performance in the stated period. As they are industry specific terms, there is no comparable GAAP measure.

Operating Netback is determined as the sum of Petroleum and natural gas sales, Royalties, Operating Expense, and Transportation Expense as defined on the Statement of Income (Loss) and Comprehensive Income (Loss), and the Realized Gain (Loss) on financial instruments per note 4(a) to the financial statements, all on a per unit basis. Field netback is the operating netback, excluding the realized gain (loss) on financial instruments on a per-unit basis. Funds flow netback is the operating netback, plus general and administrative expense and transaction costs per the Statement of Income (Loss) and Comprehensive Income (Loss), and interest paid per the Statement of Cash Flows on a per-unit basis. Total units (boe) and each of the per-unit line items referenced above are also defined in the related sections of this MD&A.

## Corporate Acquisitions

“Corporate Acquisitions” is a non-GAAP measure and includes the IFRS definition of total consideration plus working capital deficit (surplus) acquired in a corporate acquisition. Management uses this measure to analyze the total compensation paid for a corporate acquisition when working capital accounts are acquired.

### Capital Expenditures and Development Capital

Management uses the Non-GAAP measures “Capital expenditures” and “Development Capital” in its analysis of cash used in investing activities. Capital expenditures and Development Capital are reconciled to GAAP measures, as defined on the Statement of Cash flows in the attached financial statements, below:

(\$000's)	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Expenditures on property and equipment	(44,359)	(29,771)	(108,131)	(69,659)
Expenditures on exploration and evaluation assets	(677)	(1,303)	(1,266)	(3,199)
<b>Development capital</b>	<b>(45,036)</b>	<b>(31,074)</b>	<b>(109,397)</b>	<b>(72,858)</b>
Proceeds on disposition of property and equipment	849	21,952	3,478	25,770
Proceeds on disposition of exploration and evaluation assets	303	95	2,420	3,545
<b>Capital expenditures</b>	<b>(43,884)</b>	<b>(9,027)</b>	<b>(103,499)</b>	<b>(43,543)</b>

### Payout Ratio and Total Payout Ratio

Management uses the Non-GAAP measures “Payout Ratio” and “Total Payout Ratio” as indicators of financial performance and sustainability. A payout ratio of 100% indicates that the company has generated the cash flow necessary to fund dividends and capital investment. Payout ratio is defined as the non-GAAP measure, Funds flow, divided by the sum of the non-GAAP measure Capital expenditures and Dividends declared per the Statement of Changes in Shareholder’s Equity in the financial statements. Total payout ratio is defined as Funds flow, divided by the sum of Capital expenditures and Dividends paid per the Statement of Cash Flows, which are net of dividends reinvested in shares per the Dividend Reinvestment Program and the Stock Dividend Program.

### 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 nine months ended September 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 September 30, 2014, the following standards were issued and are 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.
- ii) *IFRS 9: Financial Instruments* — In July 2014, the IASB issued this standard to replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 is effective for years beginning on or after January 1, 2018. Early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period. The Company is currently evaluating the impact of adopting IFRS 9 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 PROCEDURES**

Disclosure controls and procedures ("DC&P"), as defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, are controls and other procedures of an issuer that are designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by an issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the issuer's management, including its certifying officers, as appropriate to allow timely decisions regarding disclosure.

Twin Butte's Chief Executive Officer and Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, the effectiveness of Twin Butte's DC&P as at September 30, 2014. Based on the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Twin Butte's DC&P were effective as at September 30, 2014.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Internal controls over financial reporting ("ICFR"), as defined in National Instrument 52-109, means a process designed by, or under the supervision of, an issuer's certifying officers, and effected by the issuer's board of directors, management or other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP and includes those policies and procedures that:

- (a) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer;
- (b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the issuer's GAAP, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the issuer; and
- (c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisitions, use or disposition of the issuer's assets that could have a material effect on the annual financial statements or interim financial statements.

Twin Butte's officers used the *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") to design ICFR. Twin Butte's Chief Executive Officer and Chief Financial officer have evaluated, or caused to be evaluated under their supervision, the effectiveness of ICFR at September 30, 2014. Based on the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Twin Butte's ICFR were effective as at September 30, 2014.

It should be noted that while Twin Butte's officers believe that the Company's controls provide a reasonable level of assurance with regard to their effectiveness, they do not expect that the DC&P or ICFR will prevent all errors and/or fraud. A control system, no matter how well designed or operated, can only provide reasonable, but not absolute, assurance that the objectives of the control system are met.

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. During the year ended September 30, 2014, there were no changes to Twin Butte's ICFR that materially affected, or are reasonably likely to materially affect the Company's ICFR.

## BALANCE SHEET

<i>(unaudited – Cdn\$ thousands)</i>	<i>Note</i>	<b>September 30, 2014</b>	December 31, 2013
<b>ASSETS</b>			
<b>Current Assets</b>			
Accounts receivable		\$ 55,987	\$ 48,674
Deposits and prepaid expenses		5,386	5,588
Derivative assets	4	7,559	2,228
		<b>68,932</b>	56,490
<b>Non-current assets</b>			
Derivative assets	4	1,225	518
Exploration and evaluation	6	56,211	64,025
Property and equipment	7	1,024,466	1,044,605
		<b>\$ 1,150,834</b>	<b>\$ 1,165,638</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities		\$ 95,981	\$ 80,556
Dividend payable		5,598	5,489
Derivative liabilities	4	14,977	34,983
		<b>116,556</b>	121,028
<b>Non-current liabilities</b>			
Derivative liabilities	4	726	–
Bank indebtedness	8	237,132	252,181
Convertible debentures	9	78,580	77,648
Deferred taxes		41,024	31,348
Decommissioning provision	10	185,145	181,758
		<b>659,163</b>	663,963
<b>Shareholders' Equity</b>			
Share capital	11	730,463	717,246
Contributed surplus		8,761	8,818
Equity component of convertible debenture		2,879	2,879
Deficit		(250,432)	(227,268)
		<b>491,671</b>	501,675
		<b>\$ 1,150,834</b>	<b>\$ 1,165,638</b>

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)

<i>(unaudited – Cdn\$ thousands except per share amounts)</i>	<i>Note</i>	Three months ended September 30		Nine months ended September 30	
		2014	2013	2014	2013
Petroleum and natural gas sales	15	\$ 143,088	\$ 115,709	\$ 444,854	\$ 281,959
Royalties		(28,921)	(26,193)	(83,738)	(60,906)
<b>Revenues</b>		<b>\$ 114,167</b>	<b>\$ 89,516</b>	<b>\$ 361,116</b>	<b>\$ 221,053</b>
<b>Expenses</b>					
Operating		38,621	32,217	125,090	101,339
Transportation	15	2,255	1,944	6,407	6,096
General and administrative	12	3,362	2,428	10,915	9,000
Transaction costs		–	–	–	55
Share-based payments	11	1,009	708	3,303	3,283
Finance expense	13	5,846	2,376	17,293	7,176
Loss (gain) on derivatives	4	(28,112)	14,960	27,525	36,264
Exploration and evaluation expense	6	2,415	3,413	5,487	10,007
Gain on disposition of property and equipment	7	(652)	(8,988)	(2,618)	(2,142)
Gain on disposition of exploration asset	6	(350)	(54)	(1,647)	(3,262)
Depletion and depreciation	7	43,364	29,303	132,934	90,277
		<b>67,758</b>	<b>78,307</b>	<b>324,689</b>	<b>258,093</b>
<b>Income (loss) before income taxes</b>		<b>46,409</b>	<b>11,209</b>	<b>36,427</b>	<b>(37,040)</b>
Deferred tax expense (recovery)		11,604	3,098	9,681	(9,435)
<b>Net income (loss) and comprehensive income (loss)</b>		<b>\$ 34,805</b>	<b>\$ 8,111</b>	<b>\$ 26,746</b>	<b>\$ (27,605)</b>
<b>Net Income (Loss) per share \$</b>					
Basic	11	0.10	0.03	0.08	(0.11)
Diluted	11	0.10	0.03	0.08	(0.11)

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

## STATEMENT OF CASH FLOW

(unaudited – Cdn\$ thousands)	Note	Three months ended September 30		Nine months ended September 30	
		2014	2013	2014	2013
Cash provided by (used in):					
<b>OPERATING ACTIVITIES:</b>					
Net income (loss)		\$ 34,805	\$ 8,111	\$ 26,746	\$ (27,605)
Adjustments for items not involving cash:					
Depletion and depreciation	7	43,364	29,303	132,934	90,277
Deferred tax expense (recovery)		11,604	3,098	9,681	(9,435)
Unrealized loss (gain) on derivatives	4	(40,188)	(1,300)	(25,318)	29,553
Finance expenses	13	5,846	2,376	17,293	7,176
Share-based payments	11	1,009	708	3,303	3,283
Exploration and evaluation expenses	6	2,415	3,413	5,487	10,007
Gain on disposition of property and equipment	7	(652)	(8,988)	(2,618)	(2,142)
Gain on disposition of exploration asset	6	(350)	(54)	(1,647)	(3,262)
Interest paid	13	(4,154)	(1,768)	(12,258)	(5,415)
Cash premiums on derivatives	4	–	–	–	7,943
Expenditures on decommissioning provision	10	(1,556)	(588)	(2,259)	(1,832)
Changes in non-cash working capital	14	2,965	(22,058)	2,056	(16,971)
		55,108	12,253	153,400	81,577
<b>FINANCING ACTIVITIES</b>					
Increase (decrease) in bank indebtedness	8	(21,531)	4,588	(15,049)	(4,464)
Issuance of share capital	11	3,271	–	3,271	–
Share issue costs	11	–	–	(22)	–
Dividends		(14,939)	(10,546)	(44,468)	(32,315)
Changes in non-cash working capital	14	58	18	109	683
		(33,141)	(5,940)	(56,159)	(36,096)
<b>INVESTING ACTIVITIES</b>					
Expenditures on property and equipment		(44,359)	(29,771)	(108,131)	(69,659)
Expenditures on exploration and evaluation assets		(677)	(1,303)	(1,266)	(3,199)
Proceeds on disposition of property and equipment		849	21,952	3,478	25,770
Proceeds on disposition of exploration and evaluation assets		303	95	2,420	3,545
Changes in non-cash working capital	14	21,917	2,714	6,258	(1,938)
		(21,967)	(6,313)	(97,241)	(45,481)
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 September 30		Nine months ended September 30	
		2014	2013	2014	2013
<b>Share capital</b>					
Balance, beginning of period		\$ 723,976	\$ 529,057	\$ 717,246	\$ 523,226
Common shares issued pursuant to private placement	11	\$ 3,271		\$ 3,271	\$ –
Share issue costs, net of deferred tax	11	–	–	(16)	–
Common shares issued pursuant to the DRIP and SDP	11	1,822	1,533	5,442	4,395
Common shares issued under share award plan	11	1,394	724	4,520	3,693
Balance, end of period		\$ 730,463	\$ 531,314	\$ 730,463	\$ 531,314
<b>Contributed surplus</b>					
Balance, beginning of period		\$ 8,792	\$ 7,873	\$ 8,818	\$ 7,624
Share-based payments for share awards exercised	11	(1,394)	(724)	(4,520)	(3,693)
Share-based payments for share awards granted		1,363	820	4,463	4,038
Balance, end of period		\$ 8,761	\$ 7,969	\$ 8,761	\$ 7,969
<b>Deficit</b>					
Balance, beginning of period		\$ (268,476)	\$ (119,695)	\$ (227,268)	\$ (59,349)
Dividends	11	\$ (16,761)	\$ (12,079)	\$ (49,910)	\$ (36,709)
Net income (loss) and comprehensive income (loss)		34,805	8,111	26,746	(27,605)
Balance, end of period		\$ (250,432)	\$ (123,663)	\$ (250,432)	\$ (123,663)

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

## NOTES TO INTERIM FINANCIAL STATEMENTS

For the periods ended September 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 November 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 September 30, 2014, the following standards were issued and are 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.

- ii) *IFRS 9 Financial Instruments* — In July 2014, the IASB issued this standard to replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 is effective for years beginning on or after January 1, 2018. Early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period. The Company is currently evaluating the impact of adopting IFRS 9 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 September 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.

(\$000's)	Level in fair value hierarchy	As at September 30, 2014		As at December 31, 2013	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Financial Assets</b>					
Held For trading					
Derivative assets – oil and gas	Level 2	8,651	8,651	2,745	2,745
Derivative assets – power	Level 3	133	133	1	1
Loans and receivables					
Accounts receivable	Level 2	55,987	55,987	48,674	48,674
Deposits	Level 2	428	428	502	502
<b>Financial Liabilities</b>					
Held for trading					
Derivative liabilities – oil and gas	Level 2	14,895	14,895	34,983	34,983
Derivative liabilities – power	Level 3	262	262	–	–
Derivative liabilities – currency	Level 2	546	546	–	–
Financial liabilities at amortized cost					
Accounts payable and accrued liabilities	Level 2	95,981	95,981	80,556	80,556
Dividends payable	Level 2	5,598	5,598	5,489	5,489
Bank indebtedness	Level 2	237,132	237,132	252,181	252,181
Convertible debentures	Level 2	78,580	77,087	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 September 30, 2014, there were no transfers between levels 1, 2 or 3.

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

<i>(\$000's)</i>	
Level 3, December 31, 2013	1
Change in fair value of power purchase derivatives	(130)
<b>Level 3, September 30, 2014</b>	<b>(129)</b>

**(a) Risk Management Assets and Liabilities**

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

<i>(\$000's)</i>	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Realized gain (loss)	(12,076)	(16,260)	(52,843)	(6,711)
Unrealized gain (loss)	40,188	1,300	25,318	(29,553)
<b>Gain (loss) on derivatives</b>	<b>28,112</b>	<b>(14,960)</b>	<b>(27,525)</b>	<b>(36,264)</b>

During the period ended September 30, 2013, the Company also realized \$7.9 million of cash premiums received for selling crude oil swaption derivative contracts (September 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	September 30, 2014	December 31, 2013
Current asset	7,559	2,228
Non-current asset	1,225	518
Current liability	(14,977)	(34,983)
Non-current liability	(726)	–
<b>Net derivative asset (liability) position</b>	<b>(6,919)</b>	<b>(32,237)</b>

**Derivative Summary**

As at	September 30, 2014	December 31, 2013
Crude	(5,758)	(31,707)
Natural gas sales price derivatives	(486)	(531)
Foreign exchange derivatives	(546)	–
Power purchase price derivatives	(129)	1
<b>Net derivative asset (liability) position</b>	<b>(6,919)</b>	<b>(32,237)</b>

## Crude Oil Sales Price Derivatives

Daily barrel (bbl) quantity	Term of contract		WTI <sup>(1)</sup> Fixed price per bbl	WCS <sup>(2)</sup> Fixed Price per bbl	Fixed price per bbl WCS <sup>(2)</sup> vs. WTI <sup>(1)</sup>	Fixed written call price per bbl WTI <sup>(1)</sup>	Fair market value \$000's, (\$CAD)
3,500	January 1, 2014 to December 31, 2014	\$CAD	\$95.89				(1,686)
500	July 1, 2014 to December 31, 2014	\$CAD	\$99.25				(87)
7,500	October 1, 2014 to December 31, 2014	\$CAD	\$94.66				(4,470)
3,500	January 1, 2015 to December 31, 2015	\$CAD	\$99.76				1,075
1,000	January 1, 2015 to December 31, 2015	\$USD	\$94.60				2,786
2,000	January 1, 2015 to March 31, 2015	\$CAD	\$103.00				549
2,500	January 1, 2015 to June 30, 2015	\$CAD	\$105.88				2,881
1,000	April 1, 2015 to June 30, 2015	\$CAD	\$99.00				-
1,500	October 1, 2014 to December 31, 2014	\$CAD		\$75.00			(1,322)
1,500	January 1, 2015 to December 31, 2015	\$CAD		\$79.25			581
2,000	January 1, 2015 to June 30, 2015	\$CAD		\$78.03			(336)
500	April 1, 2015 to June 30, 2015	\$CAD		\$80.00			80
1,000	January 1, 2014 to December 31, 2014	\$CAD			\$(22.00)		(515)
3,500	February 1, 2014 to December 31, 2014	\$CAD			\$(20.86)		(1,391)
1,000	April 1, 2014 to December 31, 2014	\$CAD			\$(22.60)		(539)
4,000	July 1, 2014 to December 31, 2014	\$CAD			\$(21.90)		(1,910)
2,000	October 1, 2014 to December 31, 2014	\$CAD			\$(18.83)		(449)
5,000	January 1, 2015 to December 31, 2015	\$CAD			\$(20.77)		(129)
1,300	January 1, 2014 to December 31, 2014	\$CAD				\$110.00	(3)
1,000	July 1, 2015 to December 31, 2015	\$CAD				\$101.00	(524)
1,000	July 1, 2015 to December 31, 2015	\$USD				\$92.50	(349)
Crude oil fair value position							(5,758)

(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	(461)
2,000	January 1, 2015 to December 31, 2015		\$3.79	(25)
Natural gas fair value position				(486)

## Foreign Exchange Contracts

(USD \$000's per month)	Term of contract	Fixed \$CAD/USD Prices		Fair Market Value
		Lower end <sup>(1)</sup>	Upper end	\$000's
2,877	January 1, 2015 to December 31, 2015	1.095	1.111	(546)
Foreign exchange contract fair value position				(546)

(1) The contract is structured whereby a monthly settlement price determined above 1.095 will settle at 1.111.

### 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	133
192	January 1, 2015 to December 31, 2015	\$53.02	(262)
Power purchase contract fair value position			(129)

### NOTE 5. CAPITAL MANAGEMENT

The Company's capital structure is comprised of shareholder's equity and the non-GAAP measure of net debt <sup>(2)</sup>. Twin Butte's capital structure as at September 30, 2014 and December 31, 2013 is as follows:

(\$000's)	September 30, 2014	December 31, 2013
Bank indebtedness	237,132	252,181
Convertible debentures	78,580	77,648
Working capital deficit (surplus) <sup>(1)</sup>	40,206	31,783
Net debt <sup>(2)</sup>	355,918	361,612
Shareholders' Equity	491,671	501,675

(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. Refer to "Non-GAAP Measures" in Management's Discussion and Analysis for further discussion.

(2) Net debt is a non-GAAP measure, defined as the total of bank indebtedness, convertible debenture liability, accounts payable and accrued liabilities, cash dividend payable, less accounts receivable, deposits and prepaids. Refer to "Non-GAAP Measures" in Management's Discussion and Analysis for further discussion.

As at September 30, 2014, the Company utilized \$237.1 million of its dedicated \$365.0 million credit facility. The bank debt, working capital deficit of \$40.2 million and convertible debenture liability of \$78.6 million resulted in \$355.9 million of net debt (December 31, 2013 – \$361.6 million).

### 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	1,956
Transferred to property, plant and equipment (note 7)	(878)
Dispositions	(3,405)
Exploration and evaluation expense	(5,487)
<b>Balance at September 30, 2014</b>	<b>\$ 56,211</b>

Exploration and evaluation ("E&E") assets consist of the Company's land and exploration projects which are pending the determination of technical feasibility and commercial viability. In the nine month period ended September 30, 2014, expense of \$5.3 million was recognized (\$9.6 million – September 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 nine months ended September 30, 2014, Twin Butte completed the sale of non-core E&E assets for net proceeds of \$2.4 million (\$3.5 million – September 30, 2013). A \$1.6 million gain was recognized on these transactions (\$3.3 million – September 30, 2013).

**NOTE 7. PROPERTY AND EQUIPMENT**

<b>Cost:</b>	<b>Oil &amp; gas properties</b>	<b>Office equipment</b>	<b>Total</b>
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	109,355	–	109,355
Disposals	(2,595)	–	(2,595)
Changes in decommissioning provision	3,902	–	3,902
Transfers from E&E assets (note 5)	878	–	878
<b>Balance at September 30, 2014</b>	<b>\$ 1,528,194</b>	<b>\$ 219</b>	<b>\$ 1,528,413</b>
<b>Accumulated depletion, depreciation and impairment losses:</b>			
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	132,934	–	132,934
Disposals	(1,255)	–	(1,255)
<b>Balance at September 30, 2014</b>	<b>\$ 503,728</b>	<b>\$ 219</b>	<b>\$ 503,947</b>
<b>Net Carrying Value:</b>			
December 31, 2013	1,044,605	–	1,044,605
<b>September 30, 2014</b>	<b>\$ 1,024,466</b>	<b>–</b>	<b>\$ 1,024,466</b>

The Company capitalized \$3.6 million of general and administrative expenses (\$2.7 million – September 30, 2013) and \$1.2 million of share based compensation expenses (\$0.8 million – September 30, 2013) directly related to development and production activities for the period ended September 30, 2014.

Future development costs on proved plus probable undeveloped reserves of \$384 million as at September 30, 2014 are included in the calculation of depletion (\$301 million – September 30, 2013).

During the nine months ended September 30, 2014, Twin Butte completed the sale of non-core properties for net proceeds of \$3.5 million (\$25.8 million – September 30, 2013). A \$2.6 million gain was recognized on these transactions (\$2.1 million – September 30, 2013).

**NOTE 8. BANK INDEBTEDNESS**

At September 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 nine months ended September 30, 2014 was 4.7%, and 4.8%, respectively. For the three and nine months ended September 30, 2013, the effective interest rate on bank indebtedness was 5.1% and 5.0%, respectively.

The Company's revolving credit facility contains standard commercial covenants for facilities of this nature, including a requirement for Twin Butte to maintain an adjusted current ratio of not less than 1.0:1.0, which includes the undrawn portion of the credit facility as a current asset. The facility also contains a covenant that limits financial commodity agreements to less than 80% the average daily production of the prior quarter at the time the commodity agreement is signed. As 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. Non-commodity financial instruments, such as power and currency agreements, are required by covenant to have a maximum term of 36 months, and aggregate amounts hedged must not be more than 60% of the facility's borrowing base. At September 30, 2014, the Company is in compliance with all debt covenants.

#### 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 September 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 \$185.1 million at September 30, 2014 (\$181.8 million – December 31, 2013), based on a total future liability of \$322.3 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 September 30, 2014	Year ended December 31, 2013
Decommissioning provision, beginning of period	181,758	88,991
Liabilities incurred	4,262	4,555
Liabilities settled	(2,259)	(3,287)
Liabilities acquired from acquisitions	–	37,474
Liabilities reduced from dispositions	(2,359)	(3,543)
Effect of change in risk free rate <sup>(1)</sup>	–	28,890
Revisions in estimated cash outflows	(360)	26,192
Accretion of decommissioning provision	4,103	2,486
Decommissioning provision, end of period	185,145	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 pursuant to private placement	1,817	3,271
Common shares issued under share award plan	2,172	4,520
Common shares issued pursuant to the DRIP and SDP	2,855	5,442
Share issue costs, net of tax	–	(16)
<b>Balance at September 30, 2014</b>	<b>349,924</b>	<b>730,463</b>

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.

During the nine months ended September 30, 2014, 2.2 million share and performance share awards were exercised by employees, resulting in the granting of 2.2 million shares (1.6 million awards and 1.6 million shares – September 30, 2013). The total number of shares reserved for share based payments is 34,992,373 (34,307,956 – December 31, 2013). As at September 30, 2014 there were 7,081,693 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 nine months ended September 30, 2014 totaled \$49.9 million (\$36.7 million – September 30, 2013), equivalent to \$0.144 per weighted average share (\$0.147 per weighted average share – September 30, 2013). Of these dividends declared, \$3.5 million were reinvested in shares through the Dividend Reinvestment Program (“DRIP”), and \$1.9 million were declared through the Stock Dividend Program (“SDP”), (\$4.0 million and \$0.4 million – September 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 September 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	2,596,906	2.08	1,847,231	1.98
Reinvested dividends	290,528	2.01	190,093	2.01
Vested and converted to common shares	(1,173,013)	2.31	(999,172)	2.35
Forfeited	(624,105)	2.28	(399,378)	2.27
<b>Outstanding at Sept 30, 2014</b>	<b>4,150,859</b>	<b>\$2.17</b>	<b>2,930,834</b>	<b>\$2.10</b>

Twin Butte recorded share-based payment expense for the nine months ended September 30, 2014 was \$3.3 million (\$3.3 million – September 30, 2013).

A 15% forfeiture rate was used to estimate the Company's share-based payment expense for the nine months ended September 30, 2014 (15% – September 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 nine months ended September 30, 2014, no stock options were exercised, and 100,000 stock options were forfeited. As at September 30, 2014, 540,434 options were outstanding at a weighted average exercise price of \$2.78, all of which were exercisable.

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

Exercise Price	September 30, 2014			December 31, 2013		
	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	0.51	1,667	1.31	1.26
\$2.01 – 2.50	155,433	2.41	1.64	255,433	2.41	2.41
\$2.51 – 3.00	223,334	2.67	1.61	223,334	2.67	2.36
\$3.01 – 3.50	160,000	3.32	1.50	160,000	3.32	2.25
	<b>540,434</b>	<b>2.78</b>	<b>1.59</b>	<b>640,434</b>	<b>2.72</b>	<b>2.35</b>

### Net Income (loss) Per Share

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

(\$000's)	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Net income (loss) for the period	\$ 34,805	\$ 8,111	\$ 26,746	\$ (27,605)
Weighted average number of basic shares (000's)	348,769	250,950	346,273	250,400
Effect of dilutive securities:				
Stock options and share awards (000's)	2,053	1,335	2,310	–
Weighted average number of diluted shares (000's)	350,822	252,285	348,583	250,400
Net income (loss) per share basic (\$/share)	0.10	0.03	0.08	(0.11)
Net income (loss) per share diluted (\$/share)	0.10	0.03	0.08	(0.11)

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

In calculating the weighted average number of diluted shares for the three months ended September 30, 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 488,950 unvested share awards because the compensation expense attributed to future services was greater than the average common share market price. For the nine months ended September 30, 2014, the Company excluded 538,767 options because the exercise price was greater than the average common share market price in the quarter and 2,531,689 unvested share awards because the compensation expense attributed to future services was greater than the average common share market price. Convertible debentures have also been excluded from both periods, as the conversion price was greater than the average share price during the three and nine months ended September 30, 2014.

In the three and nine months ended September 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

(\$000's)	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Staff salaries and benefits	\$ 3,532	\$ 2,722	\$ 10,907	\$ 8,775
Rent and insurance	415	278	1,303	769
Office and other costs	1,857	1,250	5,097	4,492
Capitalized G&A	(1,366)	(900)	(3,605)	(2,662)
Overhead recoveries	(1,076)	(922)	(2,787)	(2,374)
	\$ 3,362	\$ 2,428	\$ 10,915	\$ 9,000

**NOTE 13. FINANCE EXPENSE**

(\$000's)	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Interest and bank charges	\$ 2,826	\$ 1,768	\$ 8,274	\$ 5,415
Interest on convertible debentures <sup>(1)</sup>	1,328	–	3,984	–
Accretion on convertible debentures <sup>(1)</sup>	311	–	932	–
Accretion on decommissioning provision	1,381	608	4,103	1,761
<b>Total</b>	<b>\$ 5,846</b>	<b>\$ 2,376</b>	<b>\$ 17,293</b>	<b>\$ 7,176</b>

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

**NOTE 14. SUPPLEMENTAL CASH FLOW INFORMATION**

(\$000's)	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Changes in non-cash working capital:				
Accounts receivable	\$ 10,034	\$ (23,156)	\$ (7,313)	\$ (21,687)
Deposits and prepaid expenses	(243)	723	202	(1,275)
Accounts payable and accrued liabilities	15,091	3,089	15,425	4,053
Dividends Payable	58	18	109	683
	<b>\$ 24,940</b>	<b>\$ (19,326)</b>	<b>\$ 8,423</b>	<b>\$ (18,226)</b>
Changes in non-cash working capital relating to:				
Operating activities	\$ 2,965	\$ (22,058)	\$ 2,056	\$ (16,971)
Financing activities	58	18	109	683
Investing activities	21,917	2,714	6,258	(1,938)
	<b>\$ 24,940</b>	<b>\$ (19,326)</b>	<b>\$ 8,423</b>	<b>\$ (18,226)</b>

**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	Nine months ended	Twelve months ended
	September 30, 2013	September 30, 2013	December 31, 2013
Petroleum and natural gas sales	\$ (1,769)	\$ (5,780)	\$ (8,051)
Transportation	\$ (1,769)	\$ (5,780)	\$ (8,051)
Net income / Cash flow from operations	–	–	–

## NOTE 16. RELATED PARTY TRANSACTIONS

During the three months ended September 30, 2014, the Company incurred related party costs totaling \$1.6 million (\$2.0 million – September 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 nine month period ended September 30, 2014, the Company incurred related party costs totaling \$3.7 million (\$5.1 million – September 30, 2013).

These costs were incurred in the normal course of business and were recorded at the amount exchanged between the parties. As at September 30, 2014, the Company had \$0.1 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
	415	1,684	1,703	1,737	904	–

## NOTE 18. SUBSEQUENT EVENTS

### Crude Oil Sales Price Derivative Contracts

Subsequent to September 30, 2014 the Company entered into several crude oil sales price derivatives. The average barrels and prices for these contracts are as follows:

Daily barrel (bbl) quantity	Term of contract	Fixed price per bbl WCS <sup>(1)</sup> vs. WTI <sup>(2)</sup>
1,000	January 1, 2015 to March 31, 2015	\$ (20.43)
3,000	January 1, 2015 to June 30, 2015	\$ (20.45)
1,500	July 1, 2015 to December 31, 2015	\$ (20.23)

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

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

### Natural Gas Sales Price Derivative Contracts

Subsequent to September 30, 2014 the Company also entered into a natural gas sales price derivative for 2,000 GJ/day during 2015 at a price of \$3.75, including an option to extend at the same price and volume during 2016.

### Power Purchase Price Derivative Contracts

Subsequent to September 30, 2014 the Company also entered into a power purchase price derivative for 96 megawatt hours per day during 2015 at a price of \$50.50 per megawatt.

### 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*

R. Alan Steele  
*Vice President, Finance & CFO*

Rob Wollmann  
*President*

### BOARD OF DIRECTORS

David Fitzpatrick<sup>(1) (3)</sup>  
*Chairman of the Board*

Jim Brown<sup>(1) (3)</sup>

John Brussa<sup>(3)</sup>

Tom Greschner<sup>(2)</sup>

Jim Saunders

Warren Steckley<sup>(1) (2)</sup>

William A. (Bill) Trickett<sup>(2)</sup>

Member of:

<sup>(1)</sup> Audit Committee

<sup>(2)</sup> Reserves Committee

<sup>(3)</sup> Compensation, Nominating and Governance Committee

### HEAD OFFICE

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Chartered Accountants  
Calgary, AB

### BANKERS

National Bank of Canada  
Calgary, AB

### SOLICITORS

Burnet, Duckworth & Palmer LLP  
Calgary, AB

### ENGINEERS

McDaniel & Associates Consultants Ltd.  
Calgary, AB

### REGISTRAR & TRANSFER AGENT

Valiant Trust Company  
Calgary, AB

### STOCK EXCHANGE LISTING

TSX  
Trading Symbol "TBE"



**TWIN BUTTE**  
ENERGY LTD.