



**TWIN BUTTE**  
ENERGY LTD.

**2016**

SECOND QUARTER REPORT

## HIGHLIGHTS

	Three months ended June 30			Six months ended June 30		
	2016	2015	% Change	2016	2015	% Change
<b>FINANCIAL</b> (\$000s, except per share amounts)						
Petroleum and natural gas sales	40,780	77,318	-47%	68,628	139,031	-51%
Funds flow <sup>(1)</sup>	6,994	56,982	-88%	4,014	112,349	-96%
Per share basic	0.02	0.16	-88%	0.01	0.32	-97%
Per share diluted	0.02	0.16	-88%	0.01	0.32	-97%
Net income (loss)	(171,852)	(23,920)	-618%	(200,292)	(45,737)	-338%
Per share basic	(0.48)	(0.07)	-586%	(0.56)	(0.13)	-331%
Per share diluted	(0.48)	(0.07)	-586%	(0.56)	(0.13)	-331%
Dividends declared	–	10,514	-100%	–	21,212	-100%
Capital expenditures <sup>(1)</sup>	3,463	17,012	-80%	6,226	42,054	-85%
Net debt <sup>(1)</sup>	290,873	307,672	-5%	290,873	307,672	-5%
<b>OPERATING</b>						
Average daily production						
Medium & light crude oil (bbl per day)	6,534	7,882	-17%	6,820	8,180	-17%
Heavy crude oil (bbl per day)	4,612	7,312	-37%	4,808	7,893	-39%
Natural gas (Mcf per day)	8,614	12,189	-29%	9,345	12,165	-23%
Natural gas liquids (bbl per day)	146	125	-17%	150	149	1%
Barrels of oil equivalent (boe per day, 6:1)	12,728	17,351	-27%	13,336	18,250	-27%
% Oil and NGLs	89%	88%	0%	88%	89%	-1%
Average sales price						
Medium & light crude oil (\$ per bbl)	41.06	55.70	-26%	33.31	48.07	-31%
Heavy crude oil (\$ per bbl)	35.53	50.84	-30%	27.26	42.53	-36%
Natural gas (\$ per Mcf)	1.38	2.57	-46%	1.59	2.64	-40%
Natural gas liquids (\$ per bbl)	27.77	60.69	-54%	26.60	47.44	-44%
Barrels of oil equivalent (\$ per boe, 6:1)	35.21	48.97	-28%	28.28	42.09	-33%
Field netback (\$ per boe) <sup>(1)</sup>						
Petroleum and natural gas sales	35.21	48.97	-28%	28.28	42.09	-33%
Royalties	(3.46)	(4.99)	-31%	(2.88)	(4.63)	-38%
Operating expenses	(18.04)	(18.40)	-2%	(17.47)	(18.65)	-6%
Transportation expenses	(0.94)	(0.81)	16%	(0.97)	(0.89)	9%
Field netback <sup>(1)</sup>	12.77	24.77	-48%	6.96	17.92	-61%
Cash gain (loss) on financial derivatives	1.43	16.05	-91%	2.34	20.62	89%
Operating netback <sup>(1)</sup>	14.20	40.82	-65%	9.30	38.54	-76%
Wells drilled						
Gross	1.0	6.0	-83%	1.0	23.0	-96%
Net	1.0	6.0	-83%	1.0	23.0	-96%
Success (%)	100	100	0%	100	96	4%
<b>COMMON SHARES</b>						
Shares outstanding, end of period	354,847,889	353,474,198	0%	354,847,889	353,474,198	0%
Weighted average shares outstanding – diluted	354,788,824	353,347,120	0%	354,656,362	353,164,462	0%

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

### ARRANGEMENT AGREEMENT UPDATE

The Company encourages securityholders to vote **FOR** the proposed arrangement agreement with Reignwood Resources (the "Arrangement") at the rescheduled annual and special meeting of security holders on August 29, 2016. Twin Butte's Board of Directors and management remain convinced that voting **FOR** the Arrangement is in the best interests of ALL Twin Butte security holders and that the consideration to be received pursuant to the Arrangement is fair to the Twin Butte securityholders.

### INDEPENDENT FAIRNESS OPINIONS

Peters & Co. Limited, in respect of the common shares of Twin Butte, and Canaccord Genuity Corp., in respect of the debentures of Twin Butte, have provided their independent opinions to the board of directors of Twin Butte that based upon all of the information available to them, including information not publicly released due to confidentiality agreements, that the consideration to be received pursuant to the Arrangement is **FAIR**, from a financial point of view, to the respective security holders.

### INDEPENDENT ADVISORY FIRMS SUPPORT AGREEMENT

In addition both Glass Lewis & Co. and Institutional Shareholder Services Inc. ("ISS") have recommended that Twin Butte shareholders vote **FOR** the Arrangement. Glass Lewis & Co. is widely recognized as a leading independent proxy voting and corporate governance advisory firm, whose analyses and recommendations are relied upon by many major institutional investment firms, mutual funds and fiduciaries throughout North America. ISS is a leading independent provider of corporate governance and proxy voting analysis, whose recommendations are relied on by many major institutions and securityholders to assist in making informed proxy voting decisions that are in the best interest of shareholders.

### APPROVAL OF ARRANGEMENT REMOVES RISK OF RECEIVERSHIP

The arrangement agreement removes the risk of a receivership filing which in the Company's view, in the current commodity price environment and current level of secured bank debt, would result in both debenture holders and equity holders receiving no consideration. Oil prices, which peaked in Q2, have retreated through July and August to levels seen in Q1 when the Company reported negative cash flow. Net debt to annualized funds flow was 10.4 times for Q2, and 36.2 times for the six months ended June 30, 2016.

### FURTHER PRODUCTION DECLINES INEVITABLE IF ARRANGEMENT IS NOT APPROVED

Due to lack of available liquidity Twin Butte has not been able to invest in new development projects on its asset base. This along with the shut-in of uneconomic gas production has resulted in corporate production declining from 13,944 boepd (88% liquids) in Q1 2016 to 12,728 boepd (89% liquids) in Q2 and current production of ~11,500 boepd (93% liquids). Without access to capital, despite the excellent well results achieved in both the Company's Provost and Lloydminster core areas in 2014 and 2015, further production declines are inevitable.

The proposed arrangement is in the Company's opinion, having run an extensive strategic review process, having received independent fairness opinions in respect of the common shares and the debentures, having reviewed all possible avenues, having access to all information both publicly available and that which is subject to confidentiality agreements, the best solution for all stakeholders given the current circumstances.

#### About Twin Butte:

Twin Butte Energy Ltd. is a value oriented intermediate producer with a deep, low risk, drilling inventory focused on medium and heavy oil reservoirs. The common shares of Twin Butte are listed on the TSX under the symbol "TBE" and the debentures are listed on the TSX under the symbol "TBE.DB".

*(signed)*

Rob Wollmann  
President & C.E.O.

August 11, 2016

## 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 date of the postponed security holders meeting; the possible consequences of the failure to complete the Arrangement; the Company's assessment report of the outcome to security holders in an insolvency proceeding; the decline rate on oil volumes is decreasing, the anticipated reduction in Q2 corporate gas volumes if natural gas prices remain low through the second quarter, assessment of future plans regarding the strategic alternatives review process and any expectations regarding Twin Butte's ability to continue as a going concern and future operational activities.*

*With respect to forward-looking statements contained in this report, Twin Butte has made assumptions regarding, among other things: the date of the meeting will remain the same; the manner in which the lenders may enforce their rights and remedies; the value remaining for security holders of any insolvency proceeding; future capital expenditure levels; future oil and natural gas prices and differentials between light, medium and heavy oil prices; results from operations including future oil and natural gas production levels; future exchange rates and interest rates; Twin Butte's ability to obtain equipment in a timely manner to carry out development activities; decline rates based on analogous information; its ability to market its oil and natural gas successfully to current and new customers; the impact of increasing competition; Twin Butte's ability to obtain financing on acceptable terms; and Twin Butte's ability to add production and reserves through 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 actions that may taken by Twin Butte's lenders; the risk the Arrangement is not completed; the risk that the outcomes described herein differ; the risks associated with the oil and gas industry; commodity prices; operational risks in exploration; development and production; delays or changes in plans; risks associated with the uncertainty of reserve estimates; health and safety risks, and; the uncertainty of estimates and projections of production, costs and expenses. volatility in market prices for oil and natural gas; general economic conditions in Canada, the U.S. and globally; and the other factors described under "Risk Factors" in Twin Butte's most recently filed Annual Information Form available at [www.sedar.com](http://www.sedar.com). Readers are cautioned that this list of risk factors should not be construed as exhaustive.*

*The forward-looking statements contained in this report speak only as of the date of this report. Except as expressly required by applicable securities laws, Twin Butte does not undertake any obligation to publicly update or revise any forward looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this report are expressly qualified by this cautionary statement. The conclusions set out in the fairness opinions referred to herein are subject to the assumptions made, procedures followed, matters considered and limitations on the review undertaken by the respective authors in connection with such fairness opinions and are made as at the date of such opinions. The fairness opinions have been prepared for the sole benefit of the board of directors of Twin Butte. Such fairness opinions are not to be construed as a recommendation to any security holder as whether to vote in favor of the Arrangement.*

### 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

*The reader is cautioned that this report contains the term funds flow, 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 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.*

### **Capital Expenditures**

*The reader is cautioned that this report contains the term Capital Expenditures, which is not a recognized measure under generally accepted accounting principles ("GAAP") and is a measure that represents the total 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. Management uses this measure in order to assist them in understanding Twin Butte's cash used in investing activities. 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.*

### **Field and Operating Netback**

*The reader is also cautioned that this report contains the terms field and operating netback, which are not recognized measures 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 realized gains/losses on derivatives. Management uses these measures to assist them in understanding Twin Butte's profitability relative to current commodity prices and they provide an analysis tool to benchmark changes in operational performance against prior periods and to peers on a comparable basis. Readers are cautioned, however, that this measure should not be construed as an alternative to other terms such as net income determined in accordance with GAAP as a measure of performance. Twin Butte's method of calculating this measure may differ from other companies, and accordingly, they may not be comparable to measures used by other companies.*

### **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, convertible debentures, and adjusted for working capital excluding mark-to-market derivative contracts. Working capital excluding mark-to-market derivative contracts is calculated as current assets less current liabilities both of which exclude derivative contracts and current liabilities excludes the current portion of debt. Management uses net debt to assist them in understanding Twin Butte's liquidity at specific points in time. Mark-to-market derivative contracts are excluded from working capital, in addition to net debt, as management intends to hold each contract through to maturity of the contract's term as opposed to liquidating each contract's fair value or less.*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as of August 11, 2016

### INTRODUCTION

The following Management Discussion and Analysis ("MD&A") is management's assessment of Twin Butte Energy Ltd.'s ("Twin Butte" or the "Company") financial and operating results and should be read in conjunction with the message to shareholders and the interim financial statements of the Company for the three and six months ended June 30, 2016 and the audited financial statements and MD&A for the year ended December 31, 2015. 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;
- Changes to dividend payment policy or amounts;
- 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 June 30		Six months ended June 30	
	2016	2015	2016	2015
<b>Sales (\$000s)</b>				
Medium & light oil	24,415	39,950	41,348	71,174
Heavy oil	14,911	33,831	23,855	60,767
Natural gas	1,085	2,846	2,700	5,807
Natural gas liquids	369	691	725	1,283
<b>Total petroleum and natural gas sales</b>	<b>40,780</b>	<b>77,318</b>	<b>68,628</b>	<b>139,031</b>
<b>Average Daily Production</b>				
Medium & light oil (bbl/day)	6,534	7,882	6,820	8,180
Heavy oil (bbl/day)	4,612	7,312	4,808	7,893
Natural gas (Mcf/day)	8,614	12,189	9,345	12,165
Natural gas liquids (bbl/day)	146	125	150	149
<b>Total (boe/d)</b>	<b>12,728</b>	<b>17,351</b>	<b>13,336</b>	<b>18,250</b>
<b>% oil and liquids production</b>	<b>89%</b>	<b>88%</b>	<b>88%</b>	<b>89%</b>
<b>Average Twin Butte Realized Commodity Prices <sup>(1)</sup></b>				
Medium & light oil (\$ per bbl)	41.06	55.70	33.31	48.07
Heavy oil (\$ per bbl)	35.53	50.84	27.26	42.53
Natural gas (\$ per Mcf)	1.38	2.57	1.59	2.64
Natural gas liquids (\$ per bbl)	27.77	60.69	26.60	47.44
Barrels of oil equivalent (\$ per boe, 6:1)	35.21	48.97	28.28	42.09
<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)	45.59	57.94	39.52	53.29
Edmonton crude oil (Cdn\$ per bbl)	54.71	67.63	47.70	59.72
WCS crude oil (Cdn\$ per bbl)	41.64	57.43	33.99	50.10
AECO natural gas (Cdn\$ per Mcf) <sup>(2)</sup>	1.33	2.52	1.53	2.56
Exchange rate (US\$/Cdn\$)	1.29	1.23	1.33	1.24

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

Sales for the three months ended June 30, 2016 were \$40.8 million, as compared to \$77.3 million for the three months ended June 30, 2015 representing a decrease of \$36.5 million or 47%. Both sales volumes and the average realized commodity price decreased from the prior year quarter, resulting in decreased sales. Excluding the impact of derivative instruments, the average realized commodity price decreased from \$48.97 in the second quarter of 2015 to \$35.21 during the second quarter of 2016. The WCS benchmark decreased 27% from the prior year quarter, due to a 17% decrease in the WTI benchmark, as denominated in Canadian dollars, and the change in WTI to WCS differentials, which widened 24% once exchanged to Canadian dollars.

Production decreased from 17,351 boe/d in the three months ended June 30, 2015 to 12,728 boe/d for the three months ended June 30, 2016. This decrease of 4,623 boe/d is due to expected oil declines, shut-in barrels that are uneconomic in the current pricing environment and reduced drilling. Natural gas sales volumes have also declined from comparative periods due to economically driven shut-ins.

Revenues for the six months ended June 30, 2016 were \$68.6 million, as compared to \$139.0 million for the six months ended June 30, 2015, representing a decrease of \$70.4 million or 51%. This decrease in revenue is attributed to a 27% production decrease and a 33% decrease in realized pricing. Production decreased from 18,250 boe/d in the six months ended June 30,



2015 to 13,336 boe/d in the comparable period in 2016. The average realized commodity price before hedging decreased from \$42.09 per boe in the six months ended June 30, 2015 to \$28.28 per boe in the comparable period of 2016.

### CASH GAIN (LOSS) AND PROCEEDS ON DERIVATIVES

<i>(000's except per boe amounts)</i>	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Realized gain (loss) on derivatives	1,655	25,334	5,682	68,106
Realized gain (loss) on derivatives per boe	1.43	16.05	2.34	20.62

The Company realized a cash gain on financial derivatives of \$1.7 million (\$1.43 per boe) for the three months ended June 30, 2016, compared to a cash gain of \$25.3 million (\$16.05 per boe) for the prior year quarter, due to a reduced volume of barrels hedged. During the quarter, the cash gain was on crude oil sales price derivatives, as compared to a \$25.1 million gain on crude oil sales price derivatives, a \$0.4 million gain on natural gas sales price derivatives and a \$0.2 million loss on foreign exchange contracts in the first quarter of 2015.

The Company realized a cash gain on financial derivatives of \$5.7 million (\$2.34 per boe) for the six months ended June 30, 2016, compared to a cash gain of \$68.1 million (\$20.62 per boe) for the prior year period. During the period the cash gain was on crude oil sales price derivatives, as compared to a \$67.5 million gain on crude oil sales price derivatives, a \$0.9 million gain on natural gas sales price derivatives and a \$0.3 million loss on foreign exchange contracts in the comparable period of 2015.

### ROYALTIES

<i>(\$000s except per boe amounts)</i>	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Medium & light oil	2,355	4,269	4,635	7,404
Heavy Oil	1,507	3,237	2,047	7,243
Natural Gas	(5)	97	23	124
NGLs	149	269	273	528
<b>Total Royalties</b>	<b>4,006</b>	<b>7,872</b>	<b>6,978</b>	<b>15,299</b>
Total royalties per boe	3.46	4.99	2.88	4.63
% of P&NG Sales	10%	10%	10%	11%

Royalties for the three months ended June 30, 2016 were \$4.0 million, as compared to \$7.8 million for the three months ended June 30, 2015. As a percentage of sales, the average royalty rate was consistent at 10% for both the second quarter of 2016 and the second quarter of 2015. Royalties were consistent with the prior year quarter due to decreased benchmark commodity prices and the corresponding provincial royalty calculation input prices in the continuing low price environment. In Q2 2016, medium & light oil royalty rates averaged 10%, heavy oil averaged 10%, and gas averaged nil.

Royalties for the six months ended June 30, 2016 were \$7.0 million, as compared to \$15.3 million for the six months ended June 30, 2015. Royalties decreased from the prior year period due to decreased benchmark commodity prices and the corresponding provincial royalty calculation input prices. As a percentage of revenues, the average royalty rate for the six months ended June 30, 2016 was 10%, compared to 11% in 2015. In the six months ended June 30, 2016, medium & light oil royalties averaged 11%, heavy oil royalties averaged 9%, and gas averaged 1%.

## OPERATING & TRANSPORTATION EXPENSE

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
<i>(\$000s except per boe amounts)</i>				
Operating expense	20,901	29,054	42,412	61,590
Transportation expense	1,089	1,277	2,353	2,932
Total operating & transportation expense	21,990	30,331	44,765	64,522
Operating expense per boe	18.04	18.40	17.47	18.65
Transportation expense per boe	0.94	0.81	0.97	0.89
Total per boe	18.98	19.21	18.44	19.54

Operating expenses were \$20.9 million or \$18.04 per boe for the three months ended June 30, 2016 as compared to \$29.1 million or \$18.40 per boe for the three months ended June 30, 2015. The decrease on an absolute dollar basis is attributable to decreased volumes and a reduced per boe cost. In comparison to the prior year quarter, reductions from reduced water volumes hauled due to new water disposal and handling facilities and reduced service costs were partially offset by upward pressure due to fixed costs spread over lower volumes.

Operating expenses were \$42.4 million or \$17.47 per boe for the six months ended June 30, 2016, as compared to \$61.6 million or \$18.65 for the six months ended June 30, 2015. The decrease on an absolute dollar basis is attributable to decreased volumes and a per boe reduction. On a per boe basis, cost decreases are also related to the production mix shift toward additional volumes at lower-cost properties and reduced propane costs.

Transportation expenses for the three months ended June 30, 2016 were \$1.1 million or \$0.94 per boe, compared to \$1.3 million or \$0.81 per boe in the prior year comparative quarter. Transportation expenses for the six months ended June 30, 2016 were \$2.4 million or \$0.97 per boe compared to \$2.9 million or \$0.89 per boe in the prior year comparative period. Transportation costs are consistent with the prior year periods on a per boe basis due to the variable nature of the costs.

The Company has combined operating and transportation costs of \$18.98 per boe for the quarter, a decrease from \$19.21 per boe in the second quarter of 2015.

## GENERAL AND ADMINISTRATIVE ("G&A") EXPENSES

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
<i>(\$000s except per boe amounts)</i>				
G&A expense	4,724	5,155	9,366	11,154
Capitalized G&A expense	(1,086)	(1,047)	(2,028)	(2,332)
Recoveries	(233)	(546)	(388)	(1,253)
Total net G&A expense	3,405	3,562	6,950	7,569
Total net G&A expense per boe	2.94	2.26	2.86	2.29
Transaction expense	786	–	796	–
Transaction expense per boe	0.68	–	0.33	–

General and administrative expenses, net of recoveries and capitalized G&A, were \$3.4 million or \$2.94 per boe for the three months ended June 30, 2016 as compared to \$3.6 million or \$2.26 per boe in the prior year comparative quarter. While the Company reduced employee, executive and director compensation in comparison to the second quarter of 2015, the Company incurred increased legal and advisor costs associated with changes to the credit facility and a lower level of drilling activity that reduced G&A recoveries. Net G&A expense for the six months ended June 30, 2016 was \$7.0 million or \$2.86 per boe, consistent with \$7.6 million or \$2.29 per boe in the prior year comparative period.

Transaction expense relates to legal and advisor costs attributed Company's strategic alternatives review initiated in December 2015, and the proposed Arrangement, as discussed in the section entitled "Proposed Plan of Arrangement" in this MD&A.

## FINANCE EXPENSE

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
<i>(000's except per boe amounts)</i>				
Interest and bank charges	3,926	2,577	8,151	4,742
Interest on convertible debentures	1,328	1,328	2,656	2,656
Accretion on convertible debentures	365	310	730	621
Accretion on decommissioning provision	989	1,102	2,000	2,190
Total finance expense	6,608	5,317	13,537	10,209
Total interest per boe	4.14	2.47	4.46	2.24
Total accretion per boe	1.07	0.90	1.12	0.85
Total finance expense per boe	5.21	3.37	5.58	3.09

For the three months ended June 30, 2016, finance charges were \$6.6 million as compared to \$5.3 million in the three months ended June 30, 2015. This increase is due to increased interest rates on bank debt, which accounted for \$1.2 of the increase. For the six months ended June 30, 2016, finance charges also increased and were \$13.5 million, as compared to \$10.2 million in the prior year comparative period. Increases over the six month period related to \$1.1 million in renegotiation and duration fees paid to the bank syndicate, and increased interest rates.

For Q2 2016, the Company's interest charge on the bank line was prime of 2.7% plus a margin of 2.5% to 3.5%, depending on the month, the rate on the term debt averaged 7.2%, and the Company's convertible debentures accrue an interest rate of 6.25% annually. Excluding renegotiation and duration fees, the combined effective interest rate for the three and six months ended June 30, 2016 was 7.3% and 6.8% (5.0% and 4.7% – June 30, 2015).

## NETBACKS <sup>(1)</sup>

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

<i>(\$ per boe)</i>	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Petroleum and natural gas sales	35.21	21.95	31.79	37.72	48.97	35.79	58.64	74.13
Cash gain (loss) on financial derivatives	1.43	3.17	17.36	13.24	16.05	24.81	4.87	(6.26)
Royalties	(3.46)	(2.34)	(2.04)	(4.58)	(4.99)	(4.31)	(8.92)	(14.98)
Operating expense	(18.04)	(16.95)	(19.18)	(19.23)	(18.40)	(18.87)	(20.89)	(20.01)
Transportation expense	(0.94)	(1.00)	(0.91)	(0.92)	(0.81)	(0.96)	(1.09)	(1.17)
Operating netback <sup>(1)</sup>	14.20	4.83	27.02	26.23	40.82	36.46	32.61	31.71
General and administrative expense	(2.94)	(2.79)	(1.62)	(2.21)	(2.26)	(2.32)	(1.68)	(1.74)
Transaction costs	(0.68)	(0.01)	(0.07)	–	–	–	–	–
Interest and bank charges	(4.54)	(4.38)	(2.16)	(2.12)	(2.47)	(2.03)	(2.03)	(2.15)
Funds flow netback <sup>(1)</sup>	6.04	(2.35)	23.17	21.90	36.09	32.11	28.90	27.82

(1) 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.

Due to a reduced level of hedging, continuing low sales prices, and increased interest rates and charges on outstanding debt, the Company's funds flow netback in Q2 2016 was low in comparison to historical levels.

## SHARE-BASED PAYMENT EXPENSE

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
<i>(\$000s except per boe amounts)</i>				
Share-based payment expense	3,819	1,186	4,730	2,618
Share-based payment expense per boe	3.01	0.75	1.95	0.79

During the three months ended June 30, 2016, the Company expensed \$3.8 million in share-based payment expense, an increase from \$1.2 million in the three months ended June 30, 2015. Share-based payment expense for the quarter includes \$3.0 million related to unvested awards that will accelerate and vest upon closing of the proposed Arrangement. During the six months ended June 30, 2016, the Company expensed \$4.7 million in share-based payment expense as compared to \$2.6 million in the six months ended June 30, 2015.

The Company awarded 1,080,050 share awards in the second quarter of 2016 as compared to 316,700 share awards and 266,048 performance share awards in the second quarter of 2015. Total share awards forfeited due to employee departures were 569,489 in the quarter versus 599,331 awards forfeited in the second quarter last year.

At June 30, 2016, the Company has 15,145,625 restricted share awards, 8,714,289 performance share awards and 120,000 options outstanding. The total of these share awards and options represents 7% of common shares outstanding.

## UNREALIZED DERIVATIVE ACTIVITIES

<i>(000's except per boe amounts)</i>	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Unrealized gain (loss) on derivatives	(2,610)	(45,859)	(5,417)	(90,171)
Unrealized gain (loss) on derivatives per boe	(2.06)	(29.04)	(2.23)	(27.30)

As part of the financial management strategy, the Company has adopted a commodity price risk management program with the aim of stabilizing future cash flow against the unpredictable commodity price environment and an emphasis on protecting downside risk. Due to bank syndicate restrictions, the Company is not currently permitted to enter into any new derivative contracts.

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 power swaps in order to stabilize future operating costs. 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 88% of estimated power usage in 2016, and 60% in 2017.

### Unrealized derivative assets and liabilities

As at June 30, 2016, the Company has a net unrealized financial derivative asset in the amount of \$1.7 million, as compared to an asset of \$7.1 million at December 31, 2015. This net unrealized asset position reflects hedges priced higher than the strip oil pricing for 2016. If WTI prices meet the current forecasted benchmarks these gain positions would be realized, somewhat offsetting decreased sales due to the weak commodity pricing.

As the net unrealized financial derivative asset has decreased over the periods due to the settlement of realized derivative gains in Q1 and Q2, the Company has recognized an unrealized loss for the three and six months ended June 30, 2016. This unrealized loss totaled \$2.6 million for the three months ended June 30, 2016 as compared to \$45.9 million for the prior year comparative quarter. For the six months ended June 30, 2016, the unrealized loss was \$5.4 million, compared to \$90.2 million in the prior year comparative period.

The following is a summary of derivatives as at June 30, 2016 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	Fixed price per bbl vs. WTI <sup>(1)</sup>	Fixed written call price per bbl WTI <sup>(1)</sup>	Fair market value \$000s (\$CAD)
1,000	January 1, 2016 to December 31, 2016	\$CAD \$ 85.00			3,757
5,500	January 1, 2016 to December 31, 2016	\$CAD	\$ (18.61)		(430)
1,000	January 1, 2017 to December 31, 2017	\$USD	\$ (13.30)		662
1,000	January 1, 2017 to December 31, 2017	\$CAD		\$ 85.00	(1,054)
<b>Crude oil fair value position at June 30, 2016</b>					<b>2,935</b>

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

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

### Power Purchase Price Derivatives

Daily Megawatt (MW) hours quantity	Term of contract	Fixed price per MW	Fair Market Value \$000s
384	January 1, 2016 to December 31, 2016	\$ 45.48	(847)
264	January 1, 2017 to December 31, 2017	\$ 41.28	(360)
<b>Power purchase contract fair value position at June 30, 2016</b>			<b>(1,207)</b>

## DEPLETION, DEPRECIATION & IMPAIRMENT

(\$000s except per boe amounts)	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Depletion & Depreciation	18,410	33,030	38,119	70,227
Depletion & Depreciation per boe	14.51	20.91	15.71	21.26

For the three months ended June 30, 2016, depletion and depreciation of capital assets was \$18.4 million or \$14.51 per boe compared to \$33.0 million or \$20.91 per boe for the prior year quarter. The total decrease relates to declining production and lower depletion rates for all cost generating units (CGUs), following impairment in 2015. The decrease on a per boe basis is also due to 2015 impairment and resulting lower depletion rates.

For the six months ended June 30, 2016, depletion and depreciation of capital assets was \$38.1 million, or \$15.71 per boe, compared to \$70.2 million or \$21.26 per boe in the prior year comparative period.

At June 30, 2016, the Company assessed for indicators of impairment for all of its CGUs. Following the announced plan of Arrangement, the Company determined that the value implied by the Arrangement indicated asset impairment. Twin Butte estimated the recoverable amount of each of the CGUs based on the fair value less costs of disposal of the entity. Based on the assessment, the after-tax recoverable amount did not exceed the carrying value of the South East Medium, Heavy Oil, Plains, West-Central and Pincher Creek CGUs and the total non-cash pre-tax impairment charge at June 30, 2015 was \$138.2 million (\$138.2 million after tax).

## GAIN OR LOSS ON DISPOSITIONS

During the six months ended June 30, 2016, Twin Butte completed non-core PP&E and E&E asset dispositions for net proceeds of \$0.1 million (\$0.3 million – June 30, 2015). A \$0.7 million loss was recognized on these transactions (\$0.7 million gain – June 30, 2015). E&E acquisitions and purchases during the six months ended June 30, 2016 include a non-cash addition to E&E of \$1.3 million for lands acquired at the cost of assuming decommissioning liabilities associated with \$nil value PP&E assets.

## INCOME TAXES

Deferred tax amounted to \$nil for the three months ended June 30, 2016 compared to \$7.8 million recovery for the three months ended June 30, 2015. In the six months ended June 30, 2016, deferred tax amounted \$nil, as compared to a \$14.8 million recovery in the prior year. The \$nil result is due to an allowance taken on the change in the net deferred tax asset.

In 2015 the Company received a letter from the Canada Revenue Agency (“CRA”) proposing to reassess the Company’s income tax filings related to Scientific Research and Experimental Development (“SR&ED”) tax deductions utilized in 2011 by a predecessor of the Company, and in 2014 by the Company, and certain non-capital losses. Subsequent to June 30, 2016, the Company received notices of reassessment for the 2011, 2014 and 2015 taxation years, disallowing the SR&ED deductions, certain non-capital losses and resulting in \$5.9 million of taxes payable for the 2015 tax year. These disallowed amounts would be deductible, and any taxes paid refundable, on a successful appeal of the reassessments.

Twin Butte’s management remains of the opinion that, after careful consideration and consultation at the time of the deductions and at this time, Twin Butte’s tax returns were correct as filed and the Company has not recorded a liability for the reassessments. Twin Butte’s management will vigorously defend the Company’s tax filing position, and will be required to deposit 50% of the taxes payable when filing the objection.

## NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(\$000s except per share amounts)	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Net Income (loss)	(171,852)	(23,290)	(200,292)	(45,737)
Net Income (loss) per share	(0.48)	(0.07)	(0.56)	(0.13)

Net and comprehensive income for the three months ended June 30, 2016 was a net and comprehensive loss of \$171.9 million, compared to net and comprehensive loss of \$23.3 million in the three months ended June 30, 2015. The net loss in the quarter is mainly due to impairments, additional interest charges and the current commodity environment, which significantly reduced sales revenue. Net and comprehensive income for the six months ended June 30, 2016 was a net loss of \$200.3 million, compared to a net loss of \$45.7 million in the prior year comparative period. The net loss in the current year is also mainly due to impairments, interest and the current commodity environment.

## QUARTERLY FINANCIAL SUMMARY

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

(\$000s except per share amounts)	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Average production (boe/d)	12,728	13,944	15,444	16,303	17,351	19,158	20,430	20,981
Petroleum and natural gas sales	40,780	27,847	45,162	56,577	77,318	61,713	110,219	143,088
Operating netback (per boe) <sup>(1)</sup>	14.20	4.83	27.02	26.23	40.82	36.46	32.61	31.71
Funds flow <sup>(1)</sup>	6,994	(2,980)	32,923	32,851	56,982	55,367	54,324	53,699
Per share basic	0.02	(0.01)	0.09	0.09	0.16	0.16	0.16	0.15
Per share diluted	0.02	(0.01)	0.09	0.09	0.16	0.16	0.16	0.15
Net income (loss)	(171,852)	(28,440)	(249,252)	(41,943)	(23,290)	(22,447)	(84,086)	34,805
Per share basic	(0.48)	(0.08)	(0.70)	(0.12)	(0.07)	(0.06)	(0.24)	0.10
Per share diluted	(0.48)	(0.08)	(0.70)	(0.12)	(0.07)	(0.06)	(0.24)	0.10
Capital expenditures <sup>(1)</sup>	3,463	2,763	9,402	26,583	17,012	25,042	34,128	43,884
Total assets	356,959	526,627	563,332	862,128	925,847	989,878	1,043,249	1,150,834
Net debt <sup>(1)</sup>	290,873	293,987	287,874	308,370	307,672	333,916	353,299	355,918

(1) 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. In Q3 2014 high production, changes in the Company's production mix and strong commodity prices resulted in significantly increased sales. Reduced commodity prices and declining production since Q4 2014 have since decreased quarterly sales throughout 2015 and into Q1 and Q2 2016.

Through its strategy to protect cash flows, Twin Butte aims to hedge a percentage of production using financial derivatives. As such, commodity price swings in oil can have a moderated effect on funds flow from operations, as only current quarter realized cash gains or losses are included. In Q3 through Q4 2014, funds flow increased each quarter due to higher netbacks on Provost properties and cost savings. In the first half of 2015, significant hedging gains and operating cost reductions resulted in record funds flow. Although hedging levels were lower in the second half of 2015, gains from hedging contributed significantly to funds flow in Q3 and Q4 2015. In Q1 2016, due to further reduced hedging levels, lower sales revenues, and additional bank fees, funds flow was negative. A modest price recovery led to positive cash flow in Q2 2016.

Quarterly variances in net income, however, are largely driven by non-cash items, such as impairments, unrealized gains or losses on derivatives, deferred tax expense or recovery, and gains or losses on asset acquisitions and dispositions. In Q3 2014 net income was due to unrealized gains on derivatives and gains on the sale of non-core assets. In Q4 2014, the net loss was related to impairment losses, which offset unrealized gains on derivatives. In Q1 and Q2 2015 as gains on derivatives were recognized in income in 2014, the current commodity price environment contributed to a net loss. Impairments and the current commodity price environment resulted in the losses in Q3 2015 and Q4 2015. In Q1 2016, the net loss was driven by negative funds flow, unrealized losses on derivatives and losses on disposition. Again in Q2 2016, Impairments on PP&E and E&E resulted in a net loss.

### FUNDS FLOW FROM OPERATIONS <sup>(1)</sup>

Funds flow from operations ("Funds Flow") is a non-GAAP measure. Refer to "Non-GAAP Measures" in this MD&A for further discussion and reconciliation to GAAP measures. Twin Butte considers Funds Flow a key measure of performance as it demonstrates the Company's ability to generate cash flow.

(000's except per share amounts)	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Funds flow <sup>(1)</sup>	6,994	59,982	4,014	112,349
Funds flow per share	0.02	0.16	0.01	0.32

(1) Funds flow is a non-GAAP measure. Refer to "Non-GAAP Measures" in this MD&A for further discussion and reconciliation to GAAP measures if applicable.

Funds flow from operations for the three months ended June 30, 2016 was \$7.0 million, a decrease from second quarter 2015 funds flow of \$60.0 million, due to the current commodity price environment, reduced hedging levels and additional finance costs. This represents \$0.02 per diluted share compared to \$0.16 per diluted share in 2015. Funds flow from operations for the six months ended June 30, 2016 were \$4.0 million, a decrease from funds flow of \$112.3 million in the comparable period of 2015, also due to the current commodity price environment, reduced hedging levels and increased finance costs. This represents \$0.01 per diluted share compared to \$0.32 per diluted share for in 2015, due to decreased funds flow over a comparable number of shares.

### CAPITAL EXPENDITURES

(\$000s)	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Land acquisition	49	261	258	1,034
Geological and geophysical	22	235	60	666
Drilling and completions	980	5,614	1,722	19,340
Equipping and facilities	1,327	8,855	2,138	17,820
Other	1,086	2,172	2,138	3,456
Development capital <sup>(1)</sup>	3,464	17,137	6,316	42,316
Property dispositions - Cash received	(1)	(125)	(90)	(262)
Capital expenditures <sup>(1)</sup>	3,463	17,012	6,226	42,054

(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 second quarter of 2016, the Company invested \$3.5 million on development capital, a decrease from \$17.1 million in development capital invested in Q2 2015. As only one well was drilled in the quarter, the Company's development capital expenditures for the quarter mainly consisted of site preparation and recompletion costs.

For the six months ended June 30, 2016, the Company invested \$6.3 million on development capital, a decrease from \$42.3 million in the comparable period of 2015. Proceeds from property dispositions in 2016 totaled \$0.1 million, compared to \$0.3 million in the six months ended June 30, 2015.

### Drilling Results

In the three and six months ended June 30, 2016, the Company drilled 1.0 (1.0 net) well, as compared to 6 (6.0 net) and 23 (23.0 net) wells in the three and six months ended June 30, 2015.

### Undeveloped Land

The Company's net undeveloped land holdings have decreased from 247,096 acres as at December 31, 2015 to 209,403 acres on June 30, 2016, as reductions from dispositions and expiries were greater than purchases.

## PROPOSED PLAN OF ARRANGEMENT

On June 24, 2016, Twin Butte entered into a plan of arrangement (the "Arrangement") with Reignwood Resources Holding Pte. Ltd. (the "Purchaser") and Reignwood Resources Trading UK Limited (the "Acquiror"). Pursuant to the proposed Arrangement, the Purchaser agreed to acquire: i) all of the outstanding common shares of Twin Butte for cash consideration of \$0.06 per share and ii) all of the outstanding 6.25% convertible unsecured subordinated debentures for cash consideration of \$140 per \$1,000 principal amount of debentures plus accrued and unpaid interest.

The Transaction requires shareholder and debentureholder ("Securityholders") approval, and is subject to various closing conditions, including receipt of Court approval and regulatory approvals under the Investment Canada Act (Canada) and the Competition Act (Canada). Review under the Investment Canada Act is on-going. Approval of the Arrangement under the Competition Act (Canada) was received on July 29, 2016.

Subsequent to the end of the second quarter, the Twin Butte special meeting was postponed from August 10, 2016 to August 29, 2016 to allow Securityholders time to properly take into account the information provided in the August 9, 2016 fairness opinion for debentureholders. In connection with the postponement of the meeting and related matters, Twin Butte has entered into an amending agreement with the Purchaser to postpone the meeting, without the consent of Twin Butte's lenders under its credit agreement. Failure to obtain such consent to the amending agreement is an event of default under Twin Butte's credit agreement. Twin Butte is seeking waivers from its lending syndicate for the entering into of the amending agreement. There are no assurances that the lenders will consent to the amending agreement, agree to any necessary waivers or refrain from exercising any rights or remedies they have, including accelerating the repayment of the Company's outstanding bank debt and enforcing their security by appointing a receiver to liquidate the Company's assets and manage the Company's affairs. In such events, the Arrangement will be terminated.

## LIQUIDITY AND CAPITAL RESOURCES

The Company also 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 over time 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 June 30		Six months ended June 30	
	2016	2015	2016	2015
Funds flow <sup>(1)</sup>	6,994	56,982	4,014	112,349
Annualized funds flow <sup>(1)</sup>	27,976	227,928	8,028	224,698
Net debt <sup>(1)</sup>	290,873	307,672	290,873	307,672
Net debt to annualized funds flow <sup>(1)</sup>	10.4	1.3	36.2	1.4

(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 six months ended June 30, 2016, the net debt to annualized funds flow ratio was 36.2 (1.4 – June 30, 2015). Based on net debt of \$290.9 million at June 30, 2016 and forecasted annual funds flow for 2016 at current benchmark oil pricing, the Company expects the net debt to annualized funds flow ratio to remain high in 2016.

The Company reviews capital expenditures on an on-going basis to ensure that funds flow will provide adequate funding. In cases such as the current commodity price environment, where funds flow may not be adequate to provide funding for capital expenditures, the Company will adjust capital expenditures to manage debt levels.

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.

### Net Debt

At June 30, 2016, the Company's net debt of \$290,873 million consisted of \$203.6 million drawn on its revolving and term debt credit facility, a working capital deficit of \$6.3 million and \$81.0 million of convertible debentures. During the six months ended June 30, 2016, Net Debt increased by \$3.0 million, due to the combination of low funds flow and minimal capital and decommissioning provision expenditures.

### Going Concern

As described in Note 2 to the annual financial statements as at and for the year ended December 31, 2015, circumstances existed that resulted in material uncertainty surrounding the Company's ability to continue as a going concern and lend significant doubt as to the ability of the Company to meet its obligations as they become due and, accordingly the appropriateness of the use of accounting principles applicable to a going concern. The Plan of Arrangement described above is intended to address these uncertainties, if approved by Securityholders and Investment Canada, and provided the Company is able to obtain a waiver from the banking syndicate for failure to obtain consent to postpone the annual and special meeting of securityholders to August 29, 2016.

However, if the Company is unable to obtain the waiver for failure to obtain consent, or if final approval by the Securityholders or under the Investment Canada Act is not obtained, material uncertainty as to the Company's ability to continue as a going concern and meet its obligations as they become due would continue to exist. As such, the Company includes a note on going concern uncertainty in its financial statements.

### Credit Facility

On January 15, 2016, the Company completed the semi-annual borrowing base review which reduced the borrowing base for the revolving line of credit from \$275 million to \$140 million, and established a term loan of \$85 million payable on April 30, 2016, which after multiple extensions was ultimately extended to June 23, 2016. During the quarter, the expiry of the revolving period of the Company's \$140 million revolving line of credit was also extended to June 23, 2016.

On June 23, 2016, to enable the Company to complete the Arrangement, Twin Butte entered into a forbearance and amending agreement to the existing credit agreement with its bank syndicate in connection with the Company's failure to repay the \$85 million non-revolving credit facility on June 23, 2016, which constituted an event of default under the Company's credit agreement. This forbearance and amending agreement also extended the revolving period of the Company's \$140 million revolving credit facility from June 23, 2016 to the earlier of closing of the Transaction and termination of the Arrangement Agreement. The bank syndicate agreed to forbear from exercising its rights and remedies related thereto and to any non-payment of interest on the outstanding Convertible Debentures until the earlier of closing of the Transaction, subject to certain milestones being met in accordance with the forbearance and amending agreement, and termination of the Arrangement Agreement. On August 9, 2016, without the consent of Twin Butte's lenders under its credit agreement, Twin Butte entered into an amending agreement with the Purchaser to postpone the annual and special Securityholders meeting. Failure to obtain such consent to the amending agreement is an event of default under Twin Butte's credit agreement. Twin Butte is seeking waivers from its lending syndicate for the entering into of the amending agreement. There are no assurances that the lenders will consent to the amending agreement, agree to any necessary waivers or refrain from exercising any rights or remedies they have, including accelerating the repayment of the Company's outstanding bank debt and enforcing their security by appointing a receiver to liquidate the Company's assets and manage the Company's affairs.

The \$140 million revolving bank facility consists of a revolving line of credit of \$115 million and an operating line of credit of \$25 million, and was limited to \$134 million as of June 30, 2016. The revolving bank facility has been presented as current due to the June 23, 2016 forbearance and amending agreement.

For the six months ended June 30, 2016, Interest rates for the revolving facility were set at the prime rate plus 2.5% or 3.5%, depending on the month. Interest rates for the term loan were set at prime plus 6.0% in January, increasing to prime plus 9.25% by the end of April, and reduced to 5.2% in May. The convertible debentures accrue 6.25% interest annually. After removing \$1.1 million in additional fees paid to the syndicate during the first quarter, the effective interest rate on the total of bank indebtedness and convertible debentures for the three and six months ended June 30, 2016 was 7.3% and 6.8% (June 30, 2015 – 5.0% and 4.7%).

The Company is also subject to certain non-financial covenants including monthly reporting, Arrangement requirements, permitted dispositions and permitted encumbrances. The Company's revolving credit facility also contains standard commercial financial 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. Although bank syndicate restrictions currently prevent the Company from entering into new derivative contracts, the facility also contains a covenant that limits financial commodity agreements to less than 80% of 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 June 30, 2016, with the exception of the default covered by the June 23, 2016 forbearance and amending agreement, the Company is in compliance with all remaining covenants. On August 9, 2016, the Company defaulted on the forbearance and amending agreement by failing to obtain consent for an amending agreement with the Purchaser to move the annual and special securityholders meeting.

#### **Convertible Debentures**

In December 2013, the Company issued 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. Per the June 23, 2016 amending and forbearance agreement, the Company is required to defer the interest payment scheduled for June 30, 2016. The interest payment, including accrued and unpaid interest up to the closing date, will be paid if the Arrangement closes successfully. The debentures mature on December 31, 2018. As at June 30, 2016, no conversions or redemptions have occurred.

#### **SHARE CAPITAL**

In the second quarter of 2016, 0.1 million shares were issued on account of vested share and performance share awards that were exercised, compared to 0.5 million shares issued on account of share awards in the second quarter of 2015.

As of August 11, 2016 the Company has 354,847,889 Common Shares, 120,000 stock options and 23,859,914 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.

## CONTRACTUAL OBLIGATIONS AND COMMITMENTS ARE AS FOLLOWS:

As at June 30, 2016	Less than one year	One to three years	Three to five years	Total
Crude oil derivative liability	1,984	707	–	2,691
Bank indebtedness - principal <sup>(1)</sup>	203,628	–	–	203,628
Bank indebtedness - interest	1,361	–	–	1,361
Convertible debentures - principal <sup>(2)</sup>	–	85,000	–	85,000
Convertible debentures - coupon <sup>(3)</sup>	7,969	7,969	–	15,938
Purchase obligations <sup>(4)</sup>	5,186	2,005	–	7,191
Other <sup>(5)</sup>	1,621	1,641	–	3,262
	221,749	97,322	–	319,071

(1) Repayment of this principal amount in one to three years is based on the June 23, 2016 amending and forbearance agreement and does not consider the potential approval of the Arrangement or potential credit facilities in place following the close of the Arrangement.

(2) Repayment of the Convertible Debentures assumes that all holders of the debentures will not convert their holdings into shares, and does not consider the potential approval of the Arrangement and cash consideration of \$140 per \$1000 principal of debentures as per the proposed Arrangement.

(3) Payment of the coupon on the convertible debentures is currently restricted by the June 23, 2016 forbearance and amending agreement. Further interest shown here does not consider the forbearance agreement or potential approval of the Arrangement.

(4) Purchase obligations are contracts to purchase and consume electricity during 2016 and 2017. The fair value of these contracts is recorded as a financial liability on the Company's balance sheet.

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

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 \$199.2 million (December 31, 2015 – \$202.7 million) based on current legislation and estimated costs. Actual costs may differ from those estimated due to changes in legislation or actual costs.

If the Arrangement is approved and closed successfully, the Company has contingent payments of \$4.3 million, including \$1.0 million due to executives under contractual change of control provisions.

## RELATED PARTY TRANSACTIONS

During the three months ended June 30, 2016, the Company incurred related party costs totaling \$0.7 million (\$0.5 million – June 30, 2015) for oilfield services and legal counsel rendered by three companies of which a director of Twin Butte is a director. During the six months ended June 30, 2016, the Company incurred related party costs totaling \$0.9 million (\$1.5 million – June 30, 2015).

These costs were incurred in the normal course of business and were recorded at the amount exchanged between the parties. As at June 30, 2016, the Company had \$0.3 million (\$0.5 million – December 31, 2015) included in accounts payable and accrued liabilities related to these transactions.

## SUBSEQUENT EVENTS

### Proposed Arrangement

On August 9, 2016 the Special and Annual General Meeting for the Company's shareholders and debentureholders to vote on the Arrangement was moved from August 10, 2016 to August 29, 2016 to allow Securityholders time to properly take into account the information provided in the August 9, 2016 fairness opinion for debentureholders. In connection with the postponement of the meeting, Twin Butte has entered into an amending agreement to the arrangement agreement with the Purchaser to postpone the meeting, without the consent of Twin Butte's lenders under its credit agreement. Failure to obtain such consent to the amending agreement is an event of default under Twin Butte's credit agreement. Although Twin Butte is seeking waivers from its lending syndicate for the entering into of the amending agreement, there are no assurances that the lenders will consent to the amending agreement, agree to any necessary waivers or refrain from exercising any rights or remedies they have, including accelerating the repayment of the Company's outstanding bank debt and enforcing their

security by appointing a receiver to liquidate the Company's assets and manage the Company's affairs. In such events, the Arrangement will be terminated.

### Tax Reassessments

On August 8, 2016 the Company received reassessments for the 2011, 2014 and 2015 taxation years, resulting in \$5.9 million of cash taxes owing. Twin Butte's management remains of the opinion that Twin Butte's tax returns were correct as filed and the Company has not recorded a liability for the reassessments. See Income Taxes in this MD&A.

### 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 June 30		Six months ended June 30	
	2016	2015	2016	2015
<i>(000's except per boe amounts)</i>				
Cash provided by (used in) Operating Activities	9,173	54,830	16,203	102,538
Expenditures on decommissioning provision	157	1,508	267	1,984
Change in non-cash operating working capital	(2,336)	644	(12,456)	7,827
Funds flow	6,994	56,982	4,014	112,349
Total boe in the period (000's)	1,158	1,579	2,427	3,303
Funds flow netback (\$/boe)	6.04	36.09	1.65	34.01
Annualizing factor	4.0	4.0	2.0	2.0
Funds flow - Annualized	27,976	227,928	8,028	224,698

### 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:

	June 30, 2016	December 31, 2015
<i>(000's except per share amounts)</i>		
Bank Indebtedness	203,628	205,078
Convertible debentures	80,967	80,237
Working Capital Deficit	6,278	2,559
Net Debt	290,873	287,874

### Working Capital Deficit

Twin Butte uses the term “Working Capital Deficit” 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 to the Balance Sheet is as follows:

<i>(000's except per share amounts)</i>	June 30, 2016	December 31, 2015
Accounts receivable	(20,300)	(28,598)
Deposits and prepaid expenses	(1,860)	(3,696)
Accounts payable and accrued liabilities	28,438	34,853
Dividend Payable	–	–
Working capital deficit (surplus)	6,278	2,559

### 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 5 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.

### 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:

<i>(000's)</i>	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Expenditures on property and equipment	(3,405)	(16,576)	(6,026)	(40,548)
Expenditures on exploration and evaluation assets	(59)	(561)	(290)	(1,768)
Development capital	(3,464)	(17,137)	(6,316)	(42,316)
Proceeds on disposition of property and equipment	27	–	32	–
Proceeds on disposition of exploration and evaluation assets	(26)	125	58	262
Capital expenditures	(3,463)	(17,012)	(6,226)	(42,054)

## 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 interim financial statements for the three and six months ended June 30, 2016 is included in the following annual notes to the audited Financial Statements for the year ended December 31, 2015:

- Note 5 – valuation of financial instruments;
- Note 8 – valuation of property and equipment;
- Note 11 – measurement of decommissioning provision;
- Note 12 – measurement of share-based compensation; and
- Note 17 – income tax expense.

### Judgements

In the process of applying the Company's accounting policies, management makes judgements, apart from those involving estimates, which may have a significant effect on the amounts recognized in the financial statements. Management's areas of judgement have not significantly changed from the annual financial statements for the year ended December 31, 2015.

### Significant Accounting Policies

During the three and six months ended June 30, 2016, the Company has not adopted any new or revised standards. A description of standards and interpretations that will be adopted by the Company in future periods is disclosed in note 3 of the annual financial statements for the year ended December 31, 2015. The accounting policies followed in the condensed interim financial statements are consistent with those of the previous year with the exception of income tax expense. Income tax expense for an interim period is based on an estimated annual average effective income tax rate.

## 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 where possible 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 credit-worthy 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 June 30, 2016. Based on the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Twin Butte's DC&P were effective as at June 30, 2016.

## **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 June 30, 2016. Based on the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Twin Butte's ICFR were effective as at June 30, 2016.

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 three and six months ended June 30, 2016, 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>June 30, 2016</b>	December 31, 2015
<b>ASSETS</b>			
<b>Current Assets</b>			
Accounts receivable		\$ 20,300	\$ 28,598
Deposits and prepaid expenses		1,860	3,696
Derivative assets	5	4,088	10,594
		<b>26,248</b>	<b>42,888</b>
<b>Non-current assets</b>			
Derivative assets	5	331	18
Exploration and evaluation	7	22,582	37,090
Property and equipment	8	307,798	483,336
		<b>\$ 356,959</b>	<b>\$ 563,332</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities		\$ 28,438	\$ 34,853
Derivative liabilities	5	1,984	2,283
Bank indebtedness	9	203,628	85,000
		<b>234,050</b>	<b>122,136</b>
<b>Non-current liabilities</b>			
Derivative liabilities	5	707	1,183
Bank indebtedness	9	-	120,078
Convertible debentures	10	80,967	80,237
Decommissioning provision	11	199,182	202,652
		<b>514,906</b>	<b>526,286</b>
<b>Shareholders' Equity</b>			
Share capital	12	738,337	737,452
Contributed surplus		18,970	14,556
Equity component of convertible debenture	10	2,879	2,879
Deficit		(918,133)	(717,841)
		<b>(157,947)</b>	<b>37,046</b>
		<b>\$ 356,959</b>	<b>\$ 563,332</b>

Going concern (note 2)

Commitments and contingencies (note 18)

Subsequent events (note 19)

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

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

(Unaudited - Cdn\$ thousands except per share amounts)	Note	Three months ended June 30		Six months ended June 30	
		2016	2015	2016	2015
Petroleum and natural gas sales		\$ 40,780	\$ 77,318	\$ 68,628	\$ 139,031
Royalties		(4,006)	(7,872)	(6,978)	(15,299)
<b>Revenues</b>		<b>\$ 36,774</b>	<b>\$ 69,446</b>	<b>\$ 61,650</b>	<b>\$ 123,732</b>
<b>Expenses</b>					
Operating		20,901	29,054	42,412	61,590
Transportation		1,089	1,277	2,353	2,932
General and administrative	13	3,405	3,562	6,950	7,569
Transaction costs		786	-	796	-
Share-based payments	12	3,819	1,186	4,730	2,618
Finance expense	14	6,608	5,317	13,537	10,209
Loss (gain) on derivatives	5	955	20,525	(265)	22,065
Revaluation on sub-lease		(105)	1,394	(210)	1,394
Exploration and evaluation expense	7	295	932	316	1,419
Loss (gain) on disposition of property and equipment	8	(265)	(499)	(270)	(499)
Loss (gain) on disposition of exploration asset	7	217	(125)	963	(203)
Depletion and depreciation	8	18,410	33,030	38,119	70,227
Impairment of exploration and evaluation asset	7	14,283	-	14,283	-
Impairment of property and equipment	8	138,228	4,901	138,228	4,901
		<b>208,626</b>	<b>100,554</b>	<b>261,942</b>	<b>184,222</b>
<b>Income (loss) before income taxes</b>		<b>(171,852)</b>	<b>(31,108)</b>	<b>(200,292)</b>	<b>(60,490)</b>
Deferred tax expense (recovery)	16	-	(7,818)	-	(14,753)
<b>Net income (loss) and comprehensive income (loss)</b>		<b>\$ (171,852)</b>	<b>\$ (23,290)</b>	<b>\$ (200,292)</b>	<b>\$ (45,737)</b>
<b>Net Income (Loss) per share \$</b>					
Basic	12	(0.48)	(0.07)	(0.56)	(0.13)
Diluted	12	(0.48)	(0.07)	(0.56)	(0.13)

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

## STATEMENT OF CASH FLOWS

(Unaudited - Cdn\$ thousands)	Note	Three months ended June 30		Six months ended June 30	
		2016	2015	2016	2015
Cash provided by (used in):					
<b>OPERATING ACTIVITIES:</b>					
Net income (loss)		\$ (171,852)	\$ (23,290)	\$ (200,292)	\$ (45,737)
Adjustments for items not involving cash:					
Depletion and depreciation	8	18,410	33,030	38,119	70,227
Impairments	8	152,511	4,901	152,511	4,901
Deferred tax expense (recovery)	16	-	(7,818)	-	(14,753)
Unrealized loss on derivatives	5	2,610	45,859	5,417	90,171
Finance expenses	14	6,608	5,317	13,537	10,209
Share-based payments	12	3,819	1,186	4,730	2,618
Non-cash revaluation on sub-lease		(105)	1,394	(210)	1,394
Exploration and evaluation expenses	7	295	932	316	1,419
Loss on acquisition or disposition of property and equipment	8	(265)	(499)	(270)	(499)
Loss (gain) on disposition of exploration asset	7	217	(125)	963	(203)
Interest paid	14	(5,254)	(3,905)	(10,807)	(7,398)
Expenditures on decommissioning provision	11	(157)	(1,508)	(267)	(1,984)
Changes in non-cash working capital	15	2,336	(644)	12,456	(7,827)
		9,173	54,830	16,203	102,538
<b>FINANCING ACTIVITIES</b>					
Increase (decrease) in bank indebtedness	9	(5,758)	(22,860)	(1,450)	(23,314)
Dividends		-	(10,514)	-	(20,669)
Changes in non-cash working capital	15	-	2	-	(1,994)
		(5,758)	(33,372)	(1,450)	(45,977)
<b>INVESTING ACTIVITIES</b>					
Expenditures on property and equipment		(3,405)	(16,576)	(6,026)	(40,548)
Expenditures on exploration and evaluation assets		(59)	(561)	(290)	(1,768)
Proceeds on disposition of property and equipment	8	27	-	32	-
Proceeds on disposition of exploration and evaluation assets	7	(26)	125	58	262
Changes in non-cash working capital	15	48	(4,446)	(8,527)	(14,507)
		(3,415)	(21,458)	(14,753)	(56,561)
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

<i>(unaudited - Cdn\$ thousands)</i>	<i>Note</i>	Share capital	Contributed surplus	Equity component of convertible debenture	Deficit	Total Shareholders' Equity
Balance, December 31, 2014		\$ 733,812	\$ 9,921	\$ 2,879	\$ (351,912)	\$ 394,700
Common shares issued pursuant to the DRIP and SDP	12	543	-	-	-	543
Common shares issued under share award plan	12	3,097	-	-	-	3,097
Share-based payments for share awards exercised	12	-	(3,097)	-	-	(3,097)
Share-based payments for share awards granted		-	7,732	-	-	7,732
Dividends	12	-	-	-	(28,997)	(28,997)
Net income (loss) and comprehensive income (loss)		-	-	-	(336,932)	(336,932)
Balance, December 31, 2015		\$ 737,452	\$ 14,556	\$ 2,879	\$ (717,841)	\$ 37,046
Balance, December 31, 2015		\$ 737,452	\$ 14,556	\$ 2,879	\$ (717,841)	\$ 37,046
Common shares issued pursuant to the DRIP and SDP	12	-	-	-	-	-
Common shares issued under share award plan	12	885	-	-	-	885
Share-based payments for share awards exercised	12	-	(885)	-	-	(885)
Share-based payments for share awards granted		-	5,299	-	-	5,299
Dividends	12	-	-	-	-	-
Net income (loss) and comprehensive income (loss)		-	-	-	(200,292)	(200,292)
<b>Balance, June 30, 2016</b>		<b>\$ 738,337</b>	<b>\$ 18,970</b>	<b>\$ 2,879</b>	<b>\$ (918,133)</b>	<b>\$ (157,947)</b>

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

## NOTES TO INTERIM FINANCIAL STATEMENTS

For the three and six months ended June 30, 2016 and 2015

*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 an 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. PROPOSED PLAN OF ARRANGEMENT AND GOING CONCERN

On June 24, 2016, Twin Butte entered into a plan of arrangement (the "Arrangement") with Reignwood Resources Holding Pte. Ltd. (the "Purchaser") and Reignwood Resources Trading UK Limited (the "Acquiror"). Pursuant to the proposed Arrangement, the Purchaser agreed to acquire: i) all of the outstanding common shares of Twin Butte for cash consideration of \$0.06 per share and ii) all of the outstanding 6.25% convertible unsecured subordinated debentures for cash consideration of \$140 per \$1,000 principal amount of debentures plus accrued and unpaid interest.

The Transaction requires shareholder and debentureholder approval, and is subject to various closing conditions, including receipt of Court approval and regulatory approvals under the Investment Canada Act (Canada) and the Competition Act (Canada). Review under the Investment Canada Act is on-going. Approval of the Arrangement under the Competition Act (Canada) was received on July 29, 2016.

Subsequent to the end of the second quarter, the Twin Butte special meeting was moved from August 10, 2016 to August 29, 2016 to allow Securityholders time to properly take into account the information provided in the August 9, 2016 fairness opinion for debentureholders.

To enable the Company to complete the Transaction, Twin Butte has entered into a forbearance and amending agreement to the existing credit agreement with its bank syndicate in connection with the Company's failure to repay the \$85 million non-revolving credit facility on June 23, 2016 and the extension of the revolving period of the Company's \$140 million revolving credit facility from June 23, 2016 to the earlier of closing of the Transaction and termination of the Arrangement Agreement. The payment default upon maturity of the Company's \$85 million non-revolving credit facility on June 23, 2016 constitutes an event of default under the Company's credit agreement. The bank syndicate has agreed to forbear from exercising its rights and remedies related thereto and to any non-payment of interest on the outstanding Debentures until the earlier of closing of the Transaction, subject to certain milestones being met in accordance with the revised forbearance and amending agreement, and termination of the Arrangement Agreement. On August 9, 2016, without the consent of Twin Butte's lenders under its credit agreement, Twin Butte entered into an amending agreement with the Purchaser to postpone the annual and special Securityholders meeting to August 29, 2016. Failure to obtain such consent to the amending agreement is an event of default under Twin Butte's credit agreement. Twin Butte is seeking waivers from its lending syndicate for the entering into of the amending agreement. There are no assurances that the lenders will consent to the amending agreement, agree to any necessary waivers or refrain from exercising any rights or remedies they have, including accelerating the repayment of the Company's outstanding bank debt and enforcing their security by appointing a receiver to liquidate the Company's assets and manage the Company's affairs.

#### Going Concern

These interim financial statements are prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue in operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. As described in Note 2 to the annual financial statements as at and for the year ended December 31, 2015, circumstances existed that resulted in material uncertainty surrounding the Company's ability to continue as a going concern and lend significant doubt as to the

ability of the Company to meet its obligations as they become due and, accordingly the appropriateness of the use of accounting principles applicable to a going concern. See Note 5 – Liquidity Risk.

The Plan of Arrangement described above is intended to address these uncertainties, if approved by Securityholders and Investment Canada, and provided the Company is able to obtain a waiver from the banking syndicate for failure to obtain consent to postpone the annual and special meeting of securityholders to August 29, 2016.

However, if the Company is unable to obtain the waiver for failure to obtain consent, or if final approval by the Securityholders or under the Investment Canada Act is not obtained, material uncertainty as to the Company's ability to continue as a going concern and meet its obligations as they become due would continue to exist. As such, the Company includes a note on going concern uncertainty in its financial statements.

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**NOTE 3. BASIS OF PRESENTATION**

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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, 2015, except as identified in Note 4, Significant Accounting Policies. These interim financial statements have been prepared on the historical cost basis, except as identified in Note 3 of the annual financial statements for the year ended December 31, 2015. They are presented in Canadian dollars, which is the Company's functional currency.

These financial statements were approved and authorized for issue by the Board of Directors on August 11, 2016.

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**NOTE 4. SIGNIFICANT ACCOUNTING POLICIES**

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During the three and six months ended June 30, 2016, the Company has not adopted any new or revised standards. A description of standards and interpretations that will be adopted by the Company in future periods is disclosed in note 3 of the annual financial statements for the year ended December 31, 2015. The accounting policies followed in the interim financial statements are consistent with those of the previous year with the exception of income tax expense. Income tax expense for an interim period is based on an estimated annual average effective income tax rate.

The significant judgments, estimates and assumptions made by management in these financial statements are consistent with those of the previous year, as outlined in note 4 of the December 31, 2015 annual financial statements.

## NOTE 5. 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.

(\$000s)	Level in fair value hierarchy	As At June 30, 2016		As At December 31, 2015	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Financial Assets</b>					
Held For trading					
Derivative assets - oil and gas	Level 2	4,419	4,419	10,594	10,594
Derivative assets - power	Level 3	-	-	18	18
Loans and receivables					
Accounts receivable	Level 2	20,300	20,300	28,598	28,598
Deposits	Level 2	175	175	260	260
<b>Financial Liabilities</b>					
Held for trading					
Derivative liabilities - oil and gas	Level 2	1,484	1,484	1,782	1,782
Derivative liabilities - power	Level 3	1,207	1,207	1,684	1,684
Financial liabilities at amortized cost					
Accounts payable and accrued liabilities	Level 2	28,438	28,438	34,853	34,853
Dividends payable	Level 2	-	-	-	-
Bank indebtedness	Level 2	203,628	203,628	205,078	205,078
Convertible debentures	Level 2	80,967	11,900	80,237	21,062

(1) Under IFRS 13 – Fair Value Measurement, the fair value of a liability due on demand is deemed to be not less than the amount payable on demand. However, absent that deemed rule, management has estimated the fair value of the Company's bank indebtedness to be \$184,628.

As at June 30, 2016, the carrying amounts reported on the Balance Sheet approximated the estimated fair values of financial instruments (excluding convertible debentures and bank indebtedness) due to the short terms to maturity.

Fair value is determined following a three level hierarchy:

*Level 1:* Quoted prices in active markets for identical assets and liabilities. The Company does not have any financial assets or liabilities that require level 1 inputs.

*Level 2:* Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly. Such inputs can be corroborated with other observable inputs for substantially the complete term of the contract. Twin Butte uses Level 2 inputs in the determination of the fair value of oil and gas derivative assets and liabilities, bank indebtedness and convertible debentures.

*Level 3:* Fair value is determined using inputs that are not observable. Twin Butte uses Level 3 inputs in the determination of the fair value of power purchase derivative assets and liabilities, and the fair value less costs of disposal used in determining the recoverable amount of a Cash Generating Unit (CGU) for the purpose of impairment testing for PP&E and E&E assets.

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 is determined based on the terms of the Arrangement. In testing for impairment of property and equipment, a Level 3 valuation model is used to determine the recoverable amount of a CGU. The fair value less costs of disposal

model used contains inputs that are not readily observable or corroborated, such as forecasted cash flows over the estimated life of reserves and independent land valuations.

The Company's policy is to recognize transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. During the three months ended June 30, 2016, there were no transfers between levels 1, 2 or 3.

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

(\$000s)	
Level 3, December 31, 2015	(1,666)
Change in fair value of power purchase derivatives	459
<b>Level 3, June 30, 2016</b>	<b>(1,207)</b>

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

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

(\$000s)	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Realized gain (loss)	1,655	25,334	5,682	68,106
Unrealized gain (loss)	(2,610)	(45,859)	(5,417)	(90,171)
Gain on derivatives	(955)	(20,525)	265	(22,065)

#### Derivative Position

As at	June 30, 2016	December 31, 2015
Current asset	4,088	10,594
Non-current asset	331	18
Current liability	(1,984)	(2,283)
Non-current liability	(707)	(1,183)
Net derivative asset (liability) position	1,728	7,146

#### Derivative Summary

As at	June 30, 2016	December 31, 2015
Crude oil sales price derivatives	2,935	8,812
Natural gas sales price derivatives	-	-
Foreign exchange derivatives	-	-
Power purchase price derivatives	(1,207)	(1,666)
Net derivative asset (liability) position	1,728	7,146

#### Crude Oil Sales Price Derivatives

Daily barrel (bbl) quantity	Term of contract		WTI <sup>(1)</sup> Fixed price per bbl	Fixed price vs. WTI <sup>(1)</sup> per bbl	Fixed written call price per bbl vs. WTI <sup>(1)</sup>	Fair market value \$000s (\$CAD)
1,000	January 1, 2016 to December 31, 2016	\$CAD	\$ 85.00			3,757
5,500	January 1, 2016 to December 31, 2016	\$CAD		\$ (18.61)		(430)
1,000	January 1, 2017 to December 31, 2017	\$USD		\$ (13.30)		662
1,000	January 1, 2017 to December 31, 2017	\$CAD			\$ 85.00	(1,054)
Crude oil fair value position at June 30, 2016						2,935

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

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



## Power Purchase Price Derivatives

Daily Megawatt (MW) hours quantity	Term of contract	Fixed price per MW	Fair Market Value \$000s
384	January 1, 2016 to December 31, 2016	\$ 45.48	(847)
264	January 1, 2017 to December 31, 2017	\$ 41.28	(360)
Power purchase contract fair value position at June 30, 2016			(1,207)

### (b) Liquidity risk

The timing of cash outflows relating to financial liabilities as at June 30, 2016 are as follows:

June 30, 2016	Less than one year	One to three years	Three to five years	Thereafter	Total
Trade and accrued liabilities	28,438	–	–	–	28,438
Derivative liability	1,984	707	–	–	2,691
Bank indebtedness - principal	203,628	–	–	–	203,628
Bank indebtedness - interest	1,324	–	–	–	1,324
Convertible debenture - principal <sup>(2)</sup>	–	85,000	–	–	85,000
Convertible debenture - coupon <sup>(3)</sup>	7,968	7,969	–	–	15,937
<b>Total</b>	<b>243,342</b>	<b>93,676</b>	<b>–</b>	<b>–</b>	<b>337,018</b>

(1) Repayment of this principal amount in less than one year is based on the June 23, 2016 amending and forbearance agreement and does not consider the potential approval of the Arrangement, or potential credit facilities in place following the close of the Arrangement.

(2) Repayment of the Convertible Debentures assumes that all holders of the debentures will not convert their holdings into shares, and does not consider the potential approval of the Arrangement and cash consideration of \$140 per \$1000 principal of debentures as per the proposed Arrangement.

(3) Payment of the coupon on the convertible debentures is currently restricted by the June 23, 2016 forbearance and amending agreement. Further interest shown here does not consider the forbearance agreement or potential approval of the Arrangement.

Liquidity risk is the risk that Twin Butte will not be able to meet all of its financial obligations when they become due. As discussed in Note 2 – Proposed Plan of Arrangement and Going Concern, the Company has entered into a forbearance and amending agreement to the existing credit agreement with its bank syndicate in connection with the Company's failure to repay the \$85 million non-revolving credit facility on June 23, 2016 and the extension of the revolving period of the Company's \$140 million revolving credit facility from June 23, 2016 to the earlier of closing or termination of the Arrangement. The payment default upon maturity of the Company's \$85 million non-revolving credit facility on June 23, 2016 constitutes an event of default under the Company's credit agreement. The bank syndicate has agreed to forbear from exercising its rights and remedies related thereto and to any non-payment of interest on the outstanding Debentures until the earlier of closing of the Transaction, subject to certain milestones being met in accordance with the forbearance and amending agreement, and termination of the Arrangement Agreement. In addition, the Arrangement provides for a mutual non-completion fee of \$5.0 million under which Twin Butte may be required to pay the amount to the Purchaser in certain circumstances. On August 9, 2016, without the consent of Twin Butte's lenders under its credit agreement, Twin Butte entered into an amending agreement with the Purchaser to postpone the annual and special Securityholders meeting to August 29, 2016. Failure to obtain such consent to the amending agreement is an event of default under Twin Butte's credit agreement. Twin Butte is seeking waivers from its lending syndicate for the entering into of the amending agreement. There are no assurances that the lenders will consent to the amending agreement, agree to any necessary waivers or refrain from exercising any rights or remedies they have, including accelerating the repayment of the Company's outstanding bank debt and enforcing their security by appointing a receiver to liquidate the Company's assets and manage the Company's affairs.

In 2013, the Company issued convertible debentures with a face value of \$85 million, convertible into shares of Twin Butte at the holder's option. If not already redeemed or converted at either the holder or the Company's option, on December 31, 2018 the Company will redeem remaining debentures up to the maximum face value of \$85 million. Under the terms of the June 23, 2016 forbearance and amending agreement, the Company is restricted from making any payment of interest or other amounts on the debentures, including the semi-annual interest payable on June 30, 2016. Under the terms of the proposed Arrangement, the Purchaser has agreed to acquire, subject to the conditions

of the Arrangement Agreement, the outstanding convertible debentures for cash consideration of \$140 per \$1,000 principal amount of debentures plus accrued and unpaid interest (see Note 2).

To the extent that Twin Butte enters derivatives to manage commodity price risk, it may be subject to liquidity risk as derivative liabilities become due. Derivative instruments are not entered for speculative purposes and management closely monitors commodity risk exposure in comparison to forecasted sales volumes. Liquidity risk is partially mitigated as losses realized on derivative contracts due to high commodity prices are generally matched by increased cash flows from sales in a high commodity price environment. Conversely, when commodity prices are low, gains realized on derivative contracts can partially offset reduced cash flow.

## NOTE 6. 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 June 30, 2016 and December 31, 2015 is as follows:

<i>(\$000s)</i>	<b>June 30, 2016</b>	December 31, 2015
Bank indebtedness	<b>203,628</b>	205,078
Convertible debentures	<b>80,967</b>	80,237
Working capital deficit <sup>(1)</sup>	<b>6,278</b>	2,559
Net debt <sup>(2)</sup>	<b>290,873</b>	287,874
Shareholders' Equity	<b>(157,947)</b>	37,406

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

2) Net debt 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.

As at June 30, 2016, the Company utilized \$118.6 million of the available credit facility borrowing base of \$134.0 million, and was fully drawn on the \$85.0 million term debt, for combined bank debt of \$203.6 million. The bank debt, working capital deficit of \$6.3 million and convertible debenture liability of \$81.0 million resulted in \$290.9 million of net debt (December 31, 2015 - \$287.9 million).

## NOTE 7. EXPLORATION AND EVALUATION ASSETS

Balance at December 31, 2014	\$ 44,186
Acquisitions and purchases	\$ 4,968
Transferred to property, plant and equipment (note 8)	(770)
Dispositions	(388)
Exploration and evaluation expense	(10,906)
Balance at December 31, 2015	\$ 37,090
Acquisitions and purchases	\$ 1,623
Transferred to property, plant and equipment (note 8)	(338)
Dispositions	(1,194)
Impairment of exploration and evaluation assets	(14,283)
Exploration and evaluation expense	(316)
<b>Balance at June 30, 2016</b>	<b>\$ 22,582</b>

Exploration and evaluation ("E&E") assets consist of the Company's land and seismic exploration projects which are pending the determination of technical feasibility and commercial viability. In the six months ended June 30, 2016, an expense of \$0.3 million was recognized (\$10.9 million – December 31, 2015) for current and future land expiries for which management has neither budgeted nor planned further exploration. The value of the Company's E&E assets was written down to the value implied under the terms of the arrangement, resulting in an impairment of \$14.3 million.

During the six months ended June 30, 2016, Twin Butte completed non-core E&E asset dispositions for net proceeds of \$0.1 million (\$0.3 million – June 30, 2015). A \$1.0 million loss was recognized on these transactions (\$0.2 million gain – June 30, 2015). E&E acquisitions and purchases during the six months ended June 30, 2016 include a non-cash addition to E&E of \$1.3 million for lands acquired at the cost of assuming decommissioning liabilities associated with \$nil value PP&E assets.

## NOTE 8. PROPERTY AND EQUIPMENT

<b>Cost:</b>	
Balance at December 31, 2014	\$ 1,596,813
Additions	78,656
Changes in decommissioning provision	(15,898)
Transfers from E&E assets (note7)	770
Balance at December 31, 2015	\$ 1,660,341
Additions	6,486
Changes in decommissioning provision	(6,015)
Transfers from E&E assets (note 7)	338
<b>Balance at June 30, 2016</b>	<b>\$ 1,661,150</b>
<b>Accumulated depletion, depreciation and impairment losses:</b>	
Balance at December 31, 2014	\$ 770,149
Depletion and depreciation expense	129,864
Impairment expense	276,992
Balance at December 31, 2015	\$ 1,177,005
Depletion and depreciation expense	38,119
Impairment expense	138,228
<b>Balance at June 30, 2016</b>	<b>\$ 1,353,352</b>
<b>Net Carrying Value:</b>	
December 31, 2015	483,336
<b>June 30, 2016</b>	<b>307,798</b>

The Company capitalized \$2.0 million of general and administrative expenses (\$2.3 million – June 30, 2015) and \$0.6 million of share based compensation expenses (\$1.2 million – June 30, 2015) directly related to development and production activities for the six months ended June 30, 2016. Future development costs on proved plus probable undeveloped reserves of \$251 million as at June 30, 2016 are included in the calculation of depletion (\$302 million – June 30, 2015).

During the six months ended June 30, 2016, Twin Butte completed non-core asset dispositions for net proceeds of \$nil (\$nil – June 30, 2015). A \$0.3 million gain was recognized on these transactions (\$0.5 million gain – June 30, 2015).

At June 30, 2016, the Company assessed for indicators of impairment for all of its CGUs. Following the announced Plan of Arrangement, the Company determined that the value implied by the Arrangement indicated asset impairment. Twin Butte estimated the recoverable amount of each of the CGUs based on the fair value less costs of disposal of the entity. Based on the assessment, the after-tax recoverable amount did not exceed the carrying value of the South East Medium, Heavy Oil, Plains, West-Central and Pincher Creek CGUs and the total non-cash pre-tax impairment charge at June 30, 2015 was \$138.2 million (\$138.2 million after tax).

(\$000s)	Recoverable Amount	Impairment (Pre Tax)	Impairment (Post Tax)
South East Medium CGU	\$ 201,684	\$ 86,458	\$ 86,458
Heavy Oil CGU	95,857	40,270	\$ 40,270
Plains CGU	5,513	4,500	\$ 4,500
West-Central CGU	1,201	4,000	\$ 4,000
Pincher Creek CGU	3,543	3,000	\$ 3,000
	\$ 307,798	\$ 138,228	\$ 138,228

The total pre-tax impairment charge for the year ended December 31, 2015 was \$277.0 million (\$200.0 million after tax), as Twin Butte recorded impairment due to significant and prolonged reductions to forecasted oil and natural gas pricing on the Pincher Creek CGU in the second quarter of 2015 and on the South East Medium, Heavy Oil, Plains and West-Central CGUs in the third quarter of 2015.

## NOTE 9. BANK INDEBTEDNESS

On January 15, 2016, the Company completed the semi-annual borrowing base review which reduced the borrowing base for the revolving line of credit from \$275 million to \$140 million, and established a term loan of \$85 million payable on April 30, 2016, which after multiple extensions was ultimately extended to June 23, 2016. During the quarter, the expiry of the revolving period of the Company's \$140 million revolving line of credit was also extended to June 23, 2016.

On June 23, 2016, to enable the Company to complete the Arrangement, Twin Butte entered into a forbearance and amending agreement to the existing credit agreement with its bank syndicate in connection with the Company's failure to repay the \$85 million non-revolving credit facility on June 23, 2016, which constituted an event of default under the Company's credit agreement. This forbearance and amending agreement also extended the revolving period of the Company's \$140 million revolving credit facility from June 23, 2016 to the earlier of closing of the Transaction and termination of the Arrangement Agreement. The bank syndicate agreed to forbear from exercising its rights and remedies related thereto and to any non-payment of interest on the outstanding Convertible Debentures until the earlier of closing of the Transaction, subject to certain milestones being met in accordance with the forbearance and amending agreement, and termination of the Arrangement Agreement. On August 9, 2016, without the consent of Twin Butte's lenders under its credit agreement, Twin Butte entered into an amending agreement with the Purchaser to postpone the annual and special Securityholders meeting. Failure to obtain such consent to the amending agreement is an event of default under Twin Butte's credit agreement. Twin Butte is seeking waivers from its lending syndicate for the entering into of the amending agreement. There are no assurances that the lenders will consent to the amending agreement, agree to any necessary waivers or refrain from exercising any rights or remedies they have, including accelerating the repayment of the Company's outstanding bank debt and enforcing their security by appointing a receiver to liquidate the Company's assets and manage the Company's affairs.

The \$140 million revolving bank facility consists of a revolving line of credit of \$115 million and an operating line of credit of \$25 million, and was limited to \$134 million as of June 30, 2016. The revolving bank facility has been presented as current due to the June 23, 2016 forbearance and amending agreement.

(\$000s)	At June 30, 2016	At December 31, 2015
Bank indebtedness - Current	\$ 203,628	\$ 85,000
Bank indebtedness - Long Term	-	120,078
Total bank indebtedness	\$ 203,628	\$ 205,078

For the six months ended June 30, 2016, Interest rates for the revolving facility were set at the prime rate plus 2.5% or 3.5%, depending on the month. Interest rates for the term loan were set at prime plus 6.0% in January, increasing to prime plus 9.25% by the end of April, and reduced to 5.2% in May. The convertible debentures accrue 6.25% interest annually. After removing \$1.1 million in additional fees paid to the syndicate during the first quarter, the effective

interest rate on the total of bank indebtedness and convertible debentures for the three and six months ended June 30, 2016 was 7.3% and 6.8% (June 30, 2015 – 5.0% and 4.7%).

The Company is also subject to certain non-financial covenants including monthly reporting, Arrangement requirements, permitted dispositions and permitted encumbrances. The Company's revolving credit facility also contains standard commercial financial 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. Although bank syndicate restrictions currently prevent the Company from entering into new derivative contracts, the facility also contains a covenant that limits financial commodity agreements to less than 80% of 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 June 30, 2016, with the exception of the default covered by the June 23, 2016 forbearance and amending agreement, the Company is in compliance with all remaining covenants. On August 9, 2016, the Company defaulted on the forbearance and amending agreement by failing to obtain consent for an amending agreement with the Purchaser to move the annual and special securityholders meeting.

#### NOTE 10. 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 accrue 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. The debentures mature on December 31, 2018.

Under the terms of the June 23, 2016 forbearance and amending agreement, the Company is restricted from making any payment of interest or other amounts on the debentures, including the semi-annual interest payable on June 30, 2016. Under the terms of the proposed Arrangement, the Purchaser has agreed to acquire, subject to the conditions of the Arrangement Agreement, the outstanding convertible debentures for cash consideration of \$140 per \$1,000 principal amount of debentures plus accrued and unpaid interest (see Note 2).

The debentures are classified as debt (net of issuance costs) with the residual value allocated to shareholders' equity. The issuance costs are amortized over the term of the debentures and the debt portion will accrete to the principle balance at maturity. The accretion of issuance costs and the interest paid are expensed on the statement of income and comprehensive income.

Debt component, December 31, 2015	\$ 80,237
Accretion of convertible debentures	730
<b>Debt component, June 30, 2016</b>	<b>\$ 80,967</b>
Equity component, December 31, 2015	\$ 2,879
<b>Equity component, June 30, 2016</b>	<b>\$ 2,879</b>

#### NOTE 11. 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 \$199.2 million at June 30, 2016 (\$202.7 million – December 31, 2015), based on a total future liability of \$269.1 million (\$278.6 million – December 31, 2015). Payments to settle the obligations occur over the operating lives of the underlying assets and are estimated to be from 1 to 50 years, with the majority of costs to be incurred after 2030. The estimated risk free discount rate and estimated inflation rates remained unchanged from December 31, 2015 at 2%.

Changes to the decommissioning provision are as follows:

<i>(000's)</i>	<b>Six months ended June 30, 2016</b>	Year ended December 31, 2015
Decommissioning provision, beginning of period	202,652	218,202
Liabilities incurred	57	4,423
Liabilities settled	(267)	(3,670)
Liabilities acquired from acquisitions	1,164	593
Liabilities reduced from dispositions	(352)	(1,020)
Effect of change in risk free rate <sup>(1)</sup>	2,049	–
Revisions in estimated cash outflows	(8,121)	(20,321)
Accretion of decommissioning provision	2,000	4,445
<b>Decommissioning provision, end of period</b>	<b>199,182</b>	<b>202,652</b>

(1) Revaluation of acquired decommissioning liabilities at the end of the period using a risk-free discount rate. At the date of acquisition in Q1 2016, the acquired decommissioning liabilities are valued using a credit adjusted risk-free discount rate.

## **NOTE 12. 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 <i>(000's)</i>	Share capital <i>(\$000s)</i>
Balance at December 31, 2014	351,795	733,812
Common shares issued under share award plan	1,685	3,097
Common shares issued pursuant to the DRIP and SDP	767	543
Other	(124)	0
Balance at December 31, 2015	354,123	737,452
Common shares issued under share award plan	725	885
<b>Balance at June 30, 2016</b>	<b>354,848</b>	<b>738,337</b>

During the six months ended June 30, 2016, 0.7 million share and performance share awards were exercised by employees, resulting in the granting of 0.7 million shares (1.0 million awards and 1.0 million shares – June 30, 2015). The total number of shares reserved for share based payments is 35,484,789 (35,412,280 – December 31, 2015). As at June 30, 2016 there were 23,859,914 share and performance share awards, including reinvested dividends (18,021,043 – December 31, 2015) and 120,000 (385,467 – December 31, 2015) options outstanding under the plans or a total of 7% of outstanding shares.

The Company suspended the dividend program in December 2015. The Dividend Reinvestment Program (“DRIP”) and the Stock Dividend Program (“SDP”) were suspended beginning with the dividend declared in January 2015.

## Share-based payments

### (a) Share award plan

The following table sets forth a reconciliation of outstanding share awards and related dividend and performance factor activity through June 30, 2016:

	Restricted share awards	Weighted average fair value at grant date	Performance share awards	Weighted average fair value at grant date
Outstanding at December 31, 2014	4,289,692	2.12	2,929,151	2.03
Granted	7,530,281	0.78	3,964,092	0.75
Reinvested dividends	1,416,241	–	770,185	–
Vested and converted to common shares	(1,098,991)	2.25	(586,246)	2.22
Forfeited	(801,499)	1.24	(391,863)	1.30
Outstanding at December 31, 2015	11,335,724	\$ 1.17	6,685,319	\$ 1.22
Granted	4,833,732	0.07	2,696,786	0.07
Vested and converted to common shares	(461,667)	1.46	(263,416)	1.63
Forfeited	(562,164)	1.02	(404,400)	1.10
<b>Outstanding at June 30, 2016</b>	<b>15,145,625</b>	<b>\$ 0.82</b>	<b>8,714,289</b>	<b>\$ 0.86</b>

Twin Butte recorded share-based payment expense for the six months ended June 30, 2016 of \$4.4 million (\$2.6 million – June 30, 2015). Successful completion of the Arrangement will cause the payment dates applicable to outstanding restricted and performance share awards to be accelerated such that the value attaching to outstanding awards will be settled upon closing of the Arrangement. Share-based compensation expense of \$3.0 million relating to unvested awards at June 30, 2016 has been included in share-based payment expense, due to the change of the estimated vesting date.

A 0% forfeiture rate was used to estimate the Company's share-based payment expense for the six months ended June 30, 2016 (15% – June 30, 2015).

### (b) Stock option plan

Following the initiation of the Share Award Plan in January 2012, there have been no further stock options granted and remaining outstanding options will be either exercised or forfeited. In the three months ended June 30, 2016, no stock options were exercised and 265,467 options expired. As at June 30, 2016, 120,000 options were outstanding at a weighted average exercise price of \$2.66, all of which were exercisable and expiring in July 2016.

### Net Income (loss) Per Share

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

(\$000s)	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Net income (loss) for the period	\$ (171,852)	\$ (23,290)	\$ (200,292)	\$ (45,737)
Weighted average number of basic shares (000's)	354,789	353,347	354,656	353,164
Effect of dilutive securities			–	–
Weighted average number of diluted shares (000's)	354,789	353,347	354,656	353,164
Net income (loss) per share basic (\$/share)	(0.48)	(0.07)	(0.56)	(0.13)
Net income (loss) per share diluted (\$/share)	(0.48)	(0.07)	(0.56)	(0.13)

Diluted income per share amounts reflect the potential dilution that could occur if stock options were exercised and share awards and convertible debentures 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 and six months ended June 30, 2016, the Company excluded 120,000 options because the exercise price was greater than the average common share market price in the periods. Also excluded were 23,859,914 unvested share awards because the compensation expense attributed to future services was greater than the average common share market price. Convertible debentures have further been excluded, as the conversion price was greater than the average share price during the three and six months ended June 30, 2016.

In the three and six months ended June 30, 2016 and 2015, outstanding stock options, share awards, and convertible debentures were the only potentially dilutive instruments.

#### NOTE 13. GENERAL & ADMINISTRATION (“G&A”) EXPENSE

(\$000s)	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Staff salaries and benefits	\$ 2,381	\$ 3,349	\$ 5,126	\$ 7,193
Rent and insurance	463	345	823	803
Office and other costs	1,880	1,461	3,417	3,158
Capitalized G&A	(1,086)	(1,047)	(2,028)	(2,332)
Overhead recoveries	(233)	(546)	(388)	(1,253)
	\$ 3,405	\$ 3,562	\$ 6,950	\$ 7,569

#### NOTE 14. FINANCE EXPENSE

(\$000s)	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Interest and bank charges	\$ 3,926	\$ 2,577	\$ 8,151	\$ 4,742
Interest on convertible debentures	1,328	1,328	2,656	2,656
Accretion on convertible debentures	365	310	730	621
Accretion on decommissioning provision	989	1,102	2,000	2,190
	\$ 6,608	\$ 5,317	\$ 13,537	\$ 10,209

#### NOTE 15. SUPPLEMENTAL CASH FLOW INFORMATION

(\$000s)	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Changes in non-cash working capital:				
Accounts receivable	\$ (2,637)	\$ 1,396	\$ 8,298	\$ 6,401
Deposits and prepaid expenses	439	(797)	1,836	(409)
Accounts payable and accrued liabilities	4,582	(5,689)	(6,205)	(28,326)
Dividends Payable	-	2	-	(1,994)
	\$ 2,384	\$ (5,088)	\$ 3,929	\$ (24,328)
Changes in non-cash working capital relating to:				
Operating activities	\$ 2,336	\$ (644)	\$ 12,456	\$ (7,827)
Financing activities	-	2	-	(1,994)
Investing activities	48	(4,446)	(8,527)	(14,507)
	\$ 2,384	\$ (5,088)	\$ 3,929	\$ (24,328)



## NOTE 16. INCOME TAX EXPENSE

At June 30, 2016, due to the uncertainty of utilization, the calculated deferred tax asset of 134.7 million has been derecognized to reduce the deferred tax asset to \$nil (December 31, 2015 – \$nil).

In 2015 the Company received a letter from the Canada Revenue Agency (“CRA”) proposing to reassess the Company’s income tax filings related to Scientific Research and Experimental Development (“SR&ED”) tax deductions utilized in 2011 by a predecessor of the Company, and in 2014 by the Company, and certain non-capital losses. Subsequent to June 30, 2016, the Company received notices of reassessment for the 2011, 2014 and 2015 taxation years, disallowing the SR&ED deductions, certain non-capital losses and resulting in \$5.9 million of taxes payable for the 2015 tax year. These disallowed amounts would be deductible, and any taxes paid refundable, on a successful appeal of the reassessments.

Twin Butte’s management remains of the opinion that, after careful consideration and consultation at the time of the deductions and at this time, Twin Butte’s tax returns were correct as filed and the Company has not recorded a liability for the reassessments. Twin Butte’s management will vigorously defend the Company’s tax filing position, and will be required to deposit 50% of the taxes payable when filing the objection.

## NOTE 17. RELATED PARTY TRANSACTIONS

During the three months ended June 30, 2016, the Company incurred related party costs totaling \$0.7 million (\$0.5 million – June 30, 2015) for oilfield services and legal counsel rendered by three companies of which a director of Twin Butte is a director. During the six months ended June 30, 2016, the Company incurred related party costs totaling \$0.9 million (\$1.5 million – June 30, 2015).

These costs were incurred in the normal course of business and were recorded at the amount exchanged between the parties. As at June 30, 2016, the Company had \$0.3 million (\$0.5 million – December 31, 2015) included in accounts payable and accrued liabilities related to these transactions.

## NOTE 18. COMMITMENTS AND CONTINGENCIES

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

(\$000s)	2016	2017	2018	thereafter
	1,207	1,632	825	–

If the Arrangement is approved and closed successfully, the Company has contingent payments of \$4.3 million, including \$1.0 million due to executives under contractual change of control provisions.

## NOTE 19. SUBSEQUENT EVENTS

### Proposed Arrangement

On August 9, 2016 the Special and Annual General Meeting for the Company’s shareholders and debentureholders to vote on the Arrangement was moved from August 10, 2016 to August 29, 2016 to allow Securityholders time to properly take into account the information provided in the August 9, 2016 fairness opinion for debentureholders. In connection with the postponement of the meeting, Twin Butte has entered into an amending agreement to the arrangement agreement with the Purchaser to postpone the meeting, without the consent of Twin Butte’s lenders under its credit agreement. Failure to obtain such consent to the amending agreement is an event of default under Twin Butte’s credit agreement. Although Twin Butte is seeking waivers from its lending syndicate for the entering into of the amending agreement, there are no assurances that the lenders will consent to the amending agreement, agree to any necessary waivers or refrain from exercising any rights or remedies they have, including accelerating the repayment of the Company’s outstanding bank debt and enforcing their security by appointing a receiver to liquidate the Company’s assets and manage the Company’s affairs. In such events, the Arrangement will be terminated.

### Tax Reassessments

On August 8, 2016 the Company received reassessments for the 2011, 2014 and 2015 taxation years, resulting in \$5.9 million of cash taxes owing. Twin Butte’s management remains of the opinion that Twin Butte’s tax returns were correct as filed and the Company has not recorded a liability for the reassessments. See Note 16 – Income Tax Expense.

### OFFICERS

Rob Wollmann  
*President and Chief Executive Officer*

Claude Gamache  
*Vice President, Geosciences*

Gordon Howe  
*Vice President, Land*

Dave Middleton  
*Chief Operating Officer*

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

### BOARD OF DIRECTORS

Jim Saunders  
*Executive Chairman of the Board*

David Fitzpatrick<sup>(3)</sup>  
*Lead Director*

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

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

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

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

William A. (Bill) Trickett<sup>(1) (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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### AUDITORS

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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

Computershare Canada  
Calgary, AB

### STOCK EXCHANGE LISTING

TSX  
Trading Symbol "TBE"