

**FORM 51-102F3
MATERIAL CHANGE REPORT**

1. Name and Address of Company:

Twin Butte Energy Ltd. ("**Twin Butte**" or the "**Company**")
Suite 410, 396 – 11th Avenue S.W.
Calgary, Alberta T2R 0C5

2. Date of Material Change:

June 23, 2012.

3. News Release:

A news release was issued on June 25, 2012 by the Company and disseminated through the facilities of a recognized news wire service.

4. Summary of Material Change:

Effective June 23, 2012, the Company entered into an arrangement agreement (the "**Arrangement Agreement**") with Avalon Exploration Ltd. ("**Avalon**") providing for the acquisition by Twin Butte of all of the outstanding class A common shares of Avalon (the "**Avalon Shares**") on the basis of 1.1 common shares of Twin Butte ("**Twin Butte Share**") for each outstanding Avalon Share (the "**Acquisition**"). The Acquisition is to be completed by way of a plan of arrangement under the *Business Corporations Act* (Alberta).

The deemed purchase price is approximately \$88.9 million in value, comprised of the issuance of approximately 23.3 million Twin Butte Shares (at a deemed price of \$2.29 per Twin Butte Share) and the assumption of approximately \$35.6 million in net debt and estimated transaction costs.

5. Full Description of Material Change:

5.1 – Full Description of Material Change:

Effective June 23, 2012, the Company entered into the Arrangement Agreement with Avalon providing for the acquisition by Twin Butte of all of the outstanding Avalon Shares on the basis of 1.1 Twin Butte Shares for each outstanding Avalon Share. Avalon is a private company with 100 percent of its production being heavy oil from properties located in the greater Lloydminster area.

The deemed purchase price is approximately \$88.9 million in value, comprised of the issuance of approximately 23.3 million Twin Butte Shares (at a deemed price of \$2.29 per Twin Butte Share) and the assumption of approximately \$35.6 million in net debt and estimated transaction costs.

At closing, Twin Butte anticipates it will have approximately 215.5 million shares outstanding.

The Acquisition will materially increase the size and scope of heavy oil lands and opportunities for Twin Butte. The Avalon lands are contiguous to Twin Butte's and will effectively double Twin Butte's net undeveloped land position in the Lloydminster heavy oil fairway from approximately 77,000 to 162,000 acres.

The Acquisition is to be effected by way of a plan of arrangement under the *Business Corporations Act* (Alberta). Completion of the Acquisition, which is anticipated to occur in late August 2012, is subject to, among other things, the approval of at least 66 $\frac{2}{3}$ percent of the Avalon shareholders voting on the arrangement, the approval of the Court of Queen's Bench of Alberta, the receipt of all necessary regulatory and stock exchange approvals, and certain closing conditions that are customary for a transaction of this nature.

The Boards of Directors of each of Twin Butte and Avalon have unanimously approved the Acquisition and Avalon's Board of Directors has resolved to recommend that its shareholders vote in favour of the Acquisition. Directors and officers of Avalon, who collectively hold approximately 25% of the outstanding Avalon Shares, have entered into support agreements with Twin Butte pursuant to which each has agreed to vote in favour of the Acquisition.

Avalon has agreed to not solicit or initiate any discussions regarding any other business combination or sale of material assets and has granted Twin Butte the right to match competing, unsolicited proposals. The arrangement agreement provides for a \$3 million non-completion fee payable by Avalon and a mutual cost reimbursement fee of \$350,000 payable by Twin Butte or Avalon, as the case may be, in certain circumstances if the Acquisition is not completed.

Complete details of the terms of the Acquisition are set out in the Arrangement Agreement, which has been filed by Twin Butte and is available for viewing under Twin Butte's profile at www.sedar.com.

Jennings Capital Inc. is acting as financial advisor to Avalon and has provided the Board of Directors of Avalon with its opinion that subject to the review of final documentation, that the consideration to be received by the Avalon shareholders pursuant to the Acquisition is fair, from a financial point of view, to Avalon shareholders.

5.2 – Disclosure for Restructuring Transactions:

Not applicable.

6. Reliance on Subsection 7.1(2) of National Instrument 51-102:

Not applicable.

7. Omitted Information:

Not applicable.

8. Executive Officer:

The name and business telephone number of an executive officer of the Company who is knowledgeable about the material change and this material change report is:

Alan Steele, Vice President, Finance and Chief Financial Officer
Tel: (403) 215-2692

9. Date of Report:

June 26, 2012.

Forward-Looking Statement Advisory

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 material change 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, this material change report contains, without limitation, forward-looking statements pertaining to the following: expectations of management regarding the proposed Acquisition, including the timing of completion of the Acquisition, and the effect of the Acquisition on Twin Butte.

With respect to forward-looking statements contained in this material change report, Twin Butte has made assumptions regarding, among other things: the timing of receipt of regulatory and shareholder approvals and the ability of Twin Butte to execute and realize on the anticipated benefits of the Acquisition. Although Twin Butte believes that the expectations reflected in the forward looking statements contained in this material change 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 material change 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: that the Acquisition may not close when planned or at all or on the terms and conditions set forth in the Arrangement Agreement; the failure of Twin Butte and Avalon to obtain the necessary shareholder, Court, regulatory and other third party approvals required in order to proceed with the Acquisition; volatility in market prices for oil and natural gas; incorrect assessment of the value of the Acquisition; failure to realize the anticipated benefits and synergies of the Acquisition; the general economic conditions in Canada, the U.S. and globally; and the other factors described under "Risk Factors" in Twin Butte's most recently filed Annual Information Form available in Canada at www.sedar.com. Readers are cautioned that this list of risk factors should not be construed as exhaustive.

The forward-looking statements contained in this material change report speak only as of the date of this material change 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 material change report are expressly qualified by this cautionary statement.