



For the Nine
Months ended
September 30, 2014

TSX: **BNE**
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**BONTERRA ENERGY REPORTS THIRD QUARTER 2014
FINANCIAL AND OPERATING RESULTS**

HIGHLIGHTS

As at and for the periods ended (\$ 000s except for \$ per share)	Three months ended		Nine Months ended		
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013 ⁽¹⁾	
FINANCIAL					
Revenue – realized oil and gas sales	88,959	78,946	270,754	224,758	
Funds flow ⁽⁴⁾	57,705	46,874	177,739	138,215	
Per share – basic	1.80	1.50	5.57	4.63	
Per share – diluted	1.79	1.50	5.54	4.61	
Payout ratio	50%	56%	47%	53%	
Cash flow from operations	65,705	43,953	171,888	126,124	
Per share – basic	2.05	1.41	5.38	4.22	
Per share – diluted	2.03	1.40	5.35	4.21	
Payout ratio	44%	60%	49%	58%	
Cash dividends per share	0.90	0.84	2.64	2.48	
Net earnings	20,983	19,690	71,638	47,504	
Per share – basic	0.65	0.63	2.24	1.59	
Per share – diluted	0.65	0.63	2.23	1.59	
Capital expenditures and acquisitions, net of dispositions	41,205	34,025	133,907	83,262 ⁽²⁾	
Total assets			1,080,801	1,002,773	
Working capital deficiency			55,047	43,681	
Long-term debt			140,339	147,189	
Shareholders' equity			697,337	671,528	
OPERATIONS					
Oil	-barrels per day	8,874	7,310	8,521	7,727
	-average price (\$ per barrel)	92.73	103.30	97.27	92.17
NGLs	-barrels per day	818	772	772	762
	-average price (\$ per barrel)	54.13	55.30	58.13	51.16
Natural gas	-MCF per day	21,981	22,274	22,816	21,668
	-average price (\$ per MCF)	4.54	2.71	5.17	3.33
Total barrels of oil equivalent per day (BOE) ⁽³⁾		13,355	11,794	13,096	12,100

⁽¹⁾ Nine month figures for 2013 include the results of Spartan Oil Corp. (Spartan) for the period of January 25, 2013 to September 30, 2013. Production includes 249 days for Spartan and 273 days for Bonterra.

⁽²⁾ Includes the Spartan acquisition that closed on January 25, 2013 that included \$10,000,000 of acquired cash that reduced capital expenditures from \$95,676,000 excluding dispositions.

⁽³⁾ BOE may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 MCF: 1 bbl is based on an energy conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

⁽⁴⁾ Funds flow is not a recognized measure under IFRS. For these purposes, the Company defines funds flow as funds provided by operations including proceeds from sale of investments and investment income received excluding the effects of changes in non-cash working capital items and decommissioning expenditures settled.

REPORT TO SHAREHOLDERS

Bonterra Energy Corp. (“Bonterra” or “the Company”) is pleased to announce its financial and operational results for the three months and nine months ended September 30, 2014. The results for these periods have been positive in many key categories, including production volumes, oil and gas revenue, funds flow and net earnings. For the nine months ended September 30, 2014, the Company has maintained its strategic focus on providing investors with continued growth on a per share basis, a sustainable pace of development and consistent income from dividends.

Financial and Operational Highlights

The third quarter and the nine month period for 2014 have been very successful. The Company recorded higher production, revenue and funds flow compared to the same periods in 2013 and has successfully maintained a debt level that is favorable amongst its peers.

Production

- Guidance for 2014 of 12,400 to 12,700 barrels of oil equivalent (BOE) per day
- Three Months Ended September 30, 2014 – 13,355 BOE per day; compared to the three month period for 2013 – 11,794 BOE per day
- Nine Months Ended September 30, 2014 – 13,096 BOE per day; compared to the nine month period for 2013 – 12,100 BOE per day

Funds Flow

- Three Months Ended September 30, 2014 - \$57.7 million; compared to the three month period for 2013 - \$46.9 million
- Nine Months Ended September 30, 2014 - \$177.7 million; compared to the nine month period for 2013 - \$138.2 million

Net Earnings

- Three Months Ended September 30, 2014 –\$21.0 million; compared to the three month period for 2013 - \$19.7 million
- Nine Months Ended September 30, 2014 –\$71.6 million; compared to the nine month period for 2013 - \$47.5 million

Realized Commodity Prices

	<u>2014</u>	<u>Budget</u>	<u>Actual</u>
Oil (per BBL)	Three Months	\$85.39	\$92.73
	Nine Months	\$85.39	\$97.27
NGL's (per BBL)	Three Months	\$50.72	\$54.13
	Nine Months	\$50.72	\$58.13
Natural Gas (per MCF)	Three Months	\$3.50	\$4.54
	Nine Months	\$3.50	\$5.17

Cash Netbacks

- Three Months Ended September 30, 2014 - \$46.07 per BOE; compared to the three month period for 2013 - \$43.20 per BOE
- Nine Months Ended September 30, 2014 - \$49.28 per BOE; compared to the nine month period for 2013 - \$41.54 per BOE

Net Debt

- Net debt (including working capital) to cash flow (trailing twelve months) was 0.86 to 1.0 times as at September 30, 2014, compared to the nine month period for 2013 - 1.14 to 1.0 times

Operating Costs

- Guidance for 2014 - \$13.00 per BOE
- Three Months Ended September 30, 2014 - \$15.17 per BOE; compared to the three month period for 2013 - \$14.71 per BOE
- Nine Months Ended September 30, 2014 - \$14.37 per BOE; compared to the nine month period for 2013 - \$13.00 per BOE

Additional Funds

- Additional funds from the exercise of stock options and sale of investments for the nine months ended September 30, 2014 of \$39 million

Outlook

An area that has recently evolved in our industry has been the swift and significant decline in realized commodity prices. This reduction has resulted in reduced cash flows and concerns by shareholders about the sustainability of the dividends presently being paid and the potential impact on future capital expenditures. Bonterra has maintained its focus on preserving balance sheet strength and exercising conservative financial management, the importance of which is demonstrated during periods of significantly weaker commodity prices. At September 30, 2014, the Company's net debt to cash flow ratio of 0.86 to 1.0 times was below its guidance range of 1.0 to 1.0 times to 1.5 to 1.0 times. The Company is confident with a strong balance sheet, that a prolonged reduction in commodity prices could be addressed prior to any decrease in the monthly dividend, by reducing capital expenditures, reviewing operating and administrative costs for further efficiencies while not exceeding our guidance range on our net debt to cash flow ratio.

From a longer term perspective, Bonterra still has an inventory of undrilled well locations of 10 to 15 years (mainly in the Cardium formation), subject to the length of the horizontal laterals, the average number of wells to be drilled per section and commodity prices. As such, Bonterra has access to significant future development opportunities, and is well positioned to capture tremendous upside by having a high quality asset base focused within the Pembina Cardium.

We want to express our appreciation for your continued support as we move forward in executing our plan for long-term value creation.

On behalf of the Board of Directors,



George F. Fink
Chief Executive Officer and Chairman of the Board

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following report dated November 11, 2014 is a review of the operations and current financial position for the nine months ended September 30, 2014 for Bonterra Energy Corp. (Bonterra or the Company) and should be read in conjunction with the unaudited condensed financial statements and the audited financial statements including the notes related thereto for the fiscal year ended December 31, 2013 presented under International Financial Reporting Standards (IFRS).

Use of Non-IFRS Financial Measures

Throughout this Management's Discussion and Analysis (MD&A) the Company uses the terms "payout ratio", "cash netback" and "net debt" to analyze operating performance, which are not standardized measures recognized under IFRS and do not have a standardized meaning prescribed by IFRS. These measures are commonly used in the oil and gas industry and are considered informative by management, shareholders and analysts. These measures may differ from those made by other companies and accordingly may not be comparable to such measures as reported by other companies.

The Company calculates payout ratio as a percentage by dividing cash dividends paid to shareholders by cash flow from operating activities, both of which are measures prescribed by IFRS which appear on our statements of cash flows. We calculate cash netback by dividing various financial statement items as determined by IFRS by total production for the period on a barrel of oil equivalent basis.

Frequently Recurring Terms

Bonterra uses the following frequently recurring terms in this MD&A: "WTI" refers to West Texas Intermediate, a grade of light sweet crude oil used as benchmark pricing in the United States; "MSW Stream Index" refers to the mixed sweet blend that is the benchmark price for conventionally produced light sweet crude oil in Western Canada; "bbl" refers to barrel; "NGL" refers to Natural gas liquids; "MCF" refers to thousand cubic feet; "MMBTU" refers to million British Thermal Units; and "BOE" refers to barrels of oil equivalent. Disclosure provided herein in respect of a BOE may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 MCF: 1 bbl is based on an energy conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Numerical Amounts

The reporting and the functional currency of the Company is the Canadian dollar.

Quarterly Comparisons

As at and for the periods ended (\$ 000s except \$ per share)	2014				2013		
	Q3	Q2	Q1	Q4	Q3	Q2	Q1 ⁽¹⁾
Financial							
Revenue – oil and gas sales	88,959	99,274	82,521	70,917	78,946	79,344	66,468
Cash flow from operations	65,705	57,089	49,094	47,772	43,953	41,445	40,726
Per share – basic	2.05	1.79	1.56	1.53	1.41	1.35	1.47
Per share – diluted	2.03	1.78	1.55	1.52	1.40	1.35	1.46
Payout ratio	44%	49%	56%	56%	60%	62%	53%
Cash dividends per share	0.90	0.87	0.87	0.85	0.84	0.84	0.80
Net earnings	20,983	27,614	23,041	15,254	19,690	15,119	12,695
Per share – basic	0.65	0.87	0.73	0.50	0.63	0.49	0.46
Per share – diluted	0.65	0.86	0.73	0.49	0.63	0.49	0.46
Capital expenditures and acquisitions, net of dispositions	41,205	38,466	54,236	25,965	34,025	9,731	39,506 ⁽²⁾
Total assets	1,080,801	1,066,145	1,043,822	1,000,531	1,002,773	987,067	1,016,594
Working capital deficiency	55,047	36,399	62,488	35,895	43,681	26,824	31,519
Long-term debt	140,339	151,145	143,103	156,764	147,189	179,379	189,509
Shareholders' equity	697,337	699,284	678,224	667,641	671,528	648,574	658,062
Operations							
Oil (barrels per day)	8,874	9,109	7,567	7,964	7,310	8,414	7,459
NGLs (barrels per day)	818	775	721	691	772	782	732
Natural gas (MCF per day)	21,981	24,163	22,307	22,802	22,274	20,554	22,176
Total BOE per day	13,355	13,911	12,006	12,456	11,794	12,621	11,887

⁽¹⁾ Quarterly figures for Q1 2013 include the results of Spartan Oil Corp. (Spartan), for the period of January 25, 2013 to March 31, 2013. Production includes 65 days for Spartan and 90 days for Bonterra.

⁽²⁾ Includes the Spartan acquisition that closed on January 25, 2013 that included \$10,000,000 of acquired cash that reduced capital expenditures from \$49,506,000.

2012

As at and for the periods ended (\$ 000s except \$ per share)	Q4	Q3	Q2	Q1
Financial				
Revenue – oil and gas sales	39,624	35,204	31,049	36,893
Cash flow from operations	21,460	16,440	14,727	21,698
Per share – basic	1.08	0.83	0.74	1.10
Per share – diluted	1.08	0.83	0.74	1.10
Payout ratio	72%	94%	105%	71%
Cash dividends per share	0.78	0.78	0.78	0.78
Net earnings	6,082	7,746	9,201	10,182
Per share – basic	0.31	0.39	0.47	0.52
Per share – diluted	0.31	0.39	0.46	0.51
Capital expenditures and acquisitions, net of disposals	24,069	27,360	25,288 ⁽³⁾	21,413
Total assets	419,933	412,812	393,772	371,757
Working capital deficiency	29,876	49,808	42,082	57,889
Long-term debt	166,808	128,779	114,747	75,543
Shareholders' equity	163,277	169,839	176,292	181,008
Operations				
Oil (barrels per day)	4,400	4,108	3,650	3,975
NGLs (barrels per day)	595	461	428	419
Natural gas (MCF per day)	16,009	12,583	11,753	12,260
Total BOE per day	7,663	6,666	6,037	6,438

⁽³⁾ Includes an asset acquisition that closed on June 7, 2012 for \$17,108,000.

Business Environment and Sensitivities

Bonterra's financial results are significantly influenced by fluctuations in commodity prices, including price differentials. The following table depicts selective market benchmark prices and foreign exchange rates in the last eight quarters to assist in understanding volatility in prices and foreign exchange rates that have impacted Bonterra's financial and operating performance. The increases or decreases for Bonterra's realized price for oil and natural gas for each of the eight quarters is explained in detail in the following table.

	Q3-2014	Q2-2014	Q1-2014	Q4-2013	Q3-2013	Q2-2013	Q1-2013	Q4 -2012
Crude oil								
WTI (U.S.\$/bbl)	97.17	102.99	98.68	97.44	105.82	94.22	94.37	88.18
WTI to MSW Stream Index								
Differential (U.S.\$/bbl) ⁽¹⁾	(7.93)	(6.14)	(8.25)	(14.93)	(4.72)	(3.67)	(6.95)	(3.32)
Foreign exchange								
U.S.\$ to Cdn\$	1.0893	1.0905	1.1035	1.0498	1.0385	1.0234	1.0089	0.9913
Bonterra average realized price (Cdn\$/bbl)	92.73	102.36	96.53	80.88	103.30	89.38	84.20	78.58
Natural gas								
AECO (Cdn\$/mcf)	4.00	4.67	5.69	3.52	2.43	3.52	3.18	3.20
Bonterra average realized price (Cdn\$/mcf)	4.54	4.85	6.16	3.85	2.71	4.13	3.21	3.43

⁽¹⁾ This differential accounts for the major difference between WTI and Bonterra's average realized price (before quality adjustments and foreign exchange).

The overall volatility in Bonterra's average realized commodity pricing is dependent on numerous events, some of which are:

- Increased North American production and whether there is sufficient take-away capacity leading to increasing or decreasing oil inventory drawdowns;
- Weather dependence; the 2013/2014 cold winter has been somewhat offset by a mild summer across North America. At the present time, natural gas storage levels are below the five year average;
- Timing of plant and refinery turnarounds;
- Geo-political events in the middle east countries that affect worldwide crude oil production; and
- The reduced value of the Canadian dollar compared to the U.S. dollar continues to positively affect Bonterra's realized prices.

It is difficult to predict future pricing, but the Company expects oil and gas prices to remain extremely volatile for the remainder of 2014 and 2015.

The following chart shows the Company's sensitivity to key commodity price variables. The sensitivity calculations are performed independently showing the effect of the change of one variable; with all other variables being held constant.

Annualized sensitivity analysis on cash flow, as estimated for 2014⁽¹⁾

Impact on cash flow	Change (\$)	\$000s	\$ per share ⁽²⁾
Realized crude oil price (\$/bbl)	1.00	2,636	0.08
Realized natural gas price (\$/mcf)	0.10	727	0.02
U.S.\$ to Canadian \$ exchange rate	0.01	2,241	0.07

⁽¹⁾ This analysis uses current royalty rates, annualized estimated average production of 12,500 BOE per day and no changes in working capital

⁽²⁾ Based on annualized basic weighted average shares outstanding of 32,169,623

Business Overview, Strategy and Key Performance Drivers

The Company drilled 9 (8.9 net) wells in the third quarter of 2014 (Q3 2013 – 9 wells, 9 net), and completed, equipped and tied-in all of these wells. The Company also placed on production three wells that were drilled late in the second quarter.

With the results of the current 2014 drilling program, the Company averaged 13,096 BOE per day for the first nine months of the year, which presently exceeds its annual average production guidance of 12,400 to 12,700 BOE per day.

Bonterra spent \$135,000,000 on its capital program, representing approximately 96 percent of the Company's revised capital program for 2014, primarily on the drilling of 33 gross (32.7 net) wells and completing and tying-in 4 gross (3.9 net) wells that were drilled in 2013. Currently, 41 gross (40.6 net) operated wells and 26 gross (6.4 net) non-operated horizontal wells are planned for 2014, of which up to 8 gross (7.9 net) operated wells will be drilled in the fourth quarter of 2014, but not completed, equipped and tied-in until beginning of the first quarter of 2015.

Bonterra's successful operations are dependent upon several factors, including but not limited to, the price of energy commodity products, efficiently managing capital spending, its ability to maintain desired levels of production, control over its infrastructure, its efficiency in developing and operating properties and its ability to control costs. The Company's key measures of performance with respect to these drivers include, but are not limited to: average production per day, average realized prices, and average operating costs per unit of production. Disclosure of these key performance measures can be found in the MD&A and/or previous interim or annual MD&A disclosures.

Drilling

	Three months ended						Nine months ended			
	September 30, 2014		June 30, 2014		September 30, 2013		September 30, 2014		September 30, 2013	
	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾
Crude oil horizontal-operated	9	8.9	9	8.9	9	9.0	33	32.7	24	23.8
Crude oil horizontal-non-operated	13	2.5	1	0.1	10	2.4	22	4.9	12	2.7
Total	22	11.4	10	9.0	19	11.4	55	37.6	36	26.5
Success rate	100%		100%		100%		100%		100%	

⁽¹⁾ "Gross" wells means the number of wells in which Bonterra has a working interest.

⁽²⁾ "Net" wells means the aggregate number of wells obtained by multiplying each gross well by Bonterra's percentage of working interest.

During the first nine months of 2014, the Company placed four gross (3.9 net) wells on production that were drilled in the later part of 2013, drilled 33 gross (32.7 net) wells, all of which were placed on production. As well, 22 gross (4.9 net) non-operated wells were also drilled of which 19 gross (4.4 net) were placed on production, with the remaining 3 gross (0.5 net) placed on production early in the fourth quarter.

Production

	Three months ended			Nine months ended	
	September 30, 2014	June 30, 2014	September 30, 2013	September 30, 2014 ⁽¹⁾	September 30, 2013
Crude oil (barrels per day)	8,874	9,109	7,310	8,521	7,727
NGLs (barrels per day)	818	775	772	772	762
Natural gas (MCF per day)	21,981	24,163	22,274	22,816	21,668
Average BOE per day	13,355	13,911	11,794	13,096	12,100

⁽¹⁾ In the first three quarters of 2013, average daily production included 273 days of Bonterra production and 249 days of Spartan production.

Production volumes during the first nine months increased to 13,096 BOE per day compared to 12,100 BOE per day during the same period in 2013, primarily due to multi well pad drilling ("pad development") which reduced the number of drilling days and allowed more wells to come on production sooner. In addition, the Company was able to drill and tie-in new production in Q2 2014, which traditionally is not done during the spring road ban period. Quarter over quarter, production volumes decreased 556 BOE per day, mostly due to 723 BOE per day of shut-in production due to non-operated gas plant outages.

Unplanned downtime related to third party gas plants have been resolved and production levels are back to normal. The Company continues to evaluate numerous options to address these unplanned outages.

Cash Netback

The following table illustrates the calculation of the Company's cash netback from operations for the periods ended:

\$ per BOE	Three months ended			Nine months ended	
	September 30, 2014	June 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Production volumes (BOE)	1,228,681	1,265,910	1,085,030	3,575,166	3,303,363
Gross production revenue	\$72.40	\$78.42	\$72.76	\$75.73	\$68.04
Royalties	(7.90)	(9.21)	(9.44)	(8.62)	(8.71)
Field operating costs	(15.17)	(13.98)	(14.71)	(14.37)	(13.00)
Field netback	\$49.33	\$55.24	\$48.61	\$52.74	\$46.33
General and administrative	(2.12)	(2.63)	(2.65)	(2.35)	(2.52)
Interest and other	(1.14)	(1.12)	(2.76)	(1.11)	(2.27)
Cash netback	\$46.07	\$51.48	\$43.20	\$49.28	\$41.54

Cash netbacks have increased for the first nine months of 2014 compared to 2013 primarily due to higher production volumes and prices, which were partially offset by higher operating costs. Quarter over quarter cash netbacks decreased due to lower production volumes, commodity prices and higher field operating costs.

Oil and Gas Sales

(\$ 000s)	Three months ended			Nine months ended	
	September 30, 2014	June 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Revenue – oil and gas sales	88,959	99,274	78,946	270,754	224,758
Average Realized Prices (\$):					
Crude oil (per barrel)	92.73	102.36	103.30	97.27	92.17
NGLs (per barrel)	54.13	53.50	55.30	58.13	51.16
Natural gas (per MCF)	4.54	4.85	2.71	5.17	3.33
Average (per BOE)	72.40	78.42	72.76	75.73	68.04

Revenue from oil and gas sales increased by \$45,996,000 in the first nine months 2014 or twenty percent compared to the same period in 2013. This increase was primarily due to higher commodity prices and production volumes.

The quarter over quarter decrease in oil and gas revenues of ten percent or \$10,315,000 was due to decreased oil prices and lower production volumes.

The Company's product split on a revenue basis for 2014 is approximately 88 percent weighted towards crude oil and NGLs. This ratio will likely remain similar as the Company continues to develop its mainly oil Cardium properties.

Royalties

(\$ 000s)	Three months ended			Nine months ended	
	September 30, 2014	June 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Crown royalties	6,045	7,480	4,598	18,758	13,485
Freehold, gross overriding and other royalties	3,662	4,177	5,639	12,072	15,284
Total royalties	9,707	11,657	10,237	30,830	28,769
Crown royalties - percentage of revenue	6.8	7.5	5.8	6.9	6.0
Freehold, gross overriding and other royalties - percentage of revenue	4.1	4.2	7.1	4.5	6.8
Royalties – percentage of revenue	10.9	11.7	12.9	11.4	12.8
Royalties \$ per BOE	7.90	9.21	9.44	8.62	8.71

Royalties paid by the Company consist of Crown royalties paid to the Provinces of Alberta, Saskatchewan and British Columbia. The Company's average Crown royalty rate is approximately 6.9 percent for the first nine months of 2014 compared to 6.0 percent for the comparable period in 2013. The crown royalty rate increase was primarily due to more wells that have reached accumulated production thresholds and are no longer eligible for the initial 5.0 percent crown royalty rate. Increased production volumes and higher oil prices are also responsible for the increased crown royalty rates. Quarter over quarter percent decrease in crown royalties, is primarily due to lower commodity prices and more new production at the initial 5.0 percent crown royalty rate.

Non-crown royalties decreased for the first nine months of 2014 compared to the same period in 2013, primarily due to the Company drilling the majority of its new wells in the Carnwood area, which is largely subject to crown royalties.

Production Costs

(\$ 000s except \$ per BOE)	Three months ended			Nine months ended	
	September 30, 2014	June 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Production costs (recurring)	18,643	17,694	15,963	50,262	42,933
Production costs (non-recurring) ⁽¹⁾	-	-	-	1,100	-
Total Production costs	18,643	17,694	15,963	51,362	42,933
\$ per BOE (recurring)	15.17	13.98	14.71	14.06	13.00
\$ per BOE (total)	15.17	13.98	14.71	14.37	13.00

⁽¹⁾ Non-recurring production costs relate primarily to a one-time freehold mineral tax re-assessment in the Keystone area

Production costs (recurring) on a per BOE basis for the first nine months of 2014 increased 8 percent from the comparable period in 2013. The increase in production costs on a per BOE basis can be attributed to increased oil trucking, water hauling, chemical usage and a higher number of well work overs and repairs that occurred primarily in the third quarter.

Water production (primarily load fluid recovery from frac operations) associated with new horizontal wells in a previously water flooded area in Carnwood has increased in excess of the available water injection facility capacity. The Company is addressing this issue by reactivating old vertical injectors and by commissioning two horizontal water flood pilots. One pilot injector was commissioned in the middle of August with a second injector scheduled to start injection in the first quarter of 2015. Chemical usage associated with de-emulsifiers and wax inhibitors has increased substantially in the Carnwood area due to higher production levels. In the Carnwood area, the Company has installed a new treater and is evaluating alternative programs for inhibiting wax to reduce costs. The Company also experienced higher than average well work overs primarily in the Keystone Area, as a large portion of these horizontal wells were drilled in 2012. The Company expects the cyclic wear and tear associated with the artificial

lift system of these wells will decrease due to natural production declines and therefore decrease the frequency of well work overs in this area in the future.

Quarter over quarter the production costs increased as the Company incurred \$400,000 in gas compression and processing charges for prior periods at non-operated facilities and additional well work overs as previously discussed. The Company also incurred higher than anticipated facility maintenance, plant turnarounds and equalization costs for previous periods that generally are invoiced in the third quarter.

Other Income

(\$ 000s)	Three months ended			Nine months ended	
	September 30, 2014	June 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Investment income	11	15	19	44	86
Administrative income	54	15	(17)	260	44
Gain on sale of properties	-	90	5	671	217
Realized gain on investments	933	169	-	1,102	278
	998	289	7	2,077	625

In January 2014, the Company sold a portion of its undeveloped land in the Willesden Green area for cash proceeds of \$1,000,000. At the time of disposition, the Company had a carrying value of \$419,000 for exploration and evaluation expenditures, resulting in a gain on sale of \$581,000.

The market value of the investments held by the Company is \$7,874,000 at September 30, 2014 (December 31, 2013 - \$6,804,000). The increase in carrying value is mainly due to increased market value in the investments held, partially offset by investments sold in the period for proceeds of \$1,539,000 resulting in a gain on sale of \$1,102,000.

The Company receives administrative income by way of management fees from related parties (see related party transactions).

General and Administration (G&A) Expense

(\$ 000s except \$ per BOE)	Three months ended			Nine months ended	
	September 30, 2014	June 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Employee compensation expense	1,805	1,977	1,702	5,712	4,583
Office and administration expense (recurring)	795	1,350	838	2,682	2,406
	2,600	3,327	2,540	8,394	6,989
Office and administration expense (non-recurring) ⁽¹⁾	-	-	339	-	1,331
Total G&A expense	2,600	3,327	2,879	8,394	8,320
\$ per BOE (recurring)	2.12	2.63	2.34	2.35	2.12
\$ per BOE (total)	2.12	2.63	2.65	2.35	2.52

⁽¹⁾ Non-recurring office and administration costs relates to the acquisition of Spartan.

The increase in employee compensation expense of \$1,129,000 for 2014 compared to 2013 is primarily due to an increase in staff levels for the growing operations and accrued bonuses that resulted from higher net earnings before income taxes. Quarter over quarter decrease is primarily due to a decrease in accrued bonuses that resulted from lower net earnings before income taxes. The Company has a bonus plan in which the bonus pool consists of a range between 2.5 percent to 3.5 percent of earnings before income taxes. The Company firmly

believes that tying employee compensation (including the use of stock options) to the performance of the Company clearly aligns the interest of the employees with that of the shareholders.

The increase in recurring office and administration expense for the first nine months of 2014 compared to 2013 related to increased computer software costs, professional fees, and general office expenditures. The decrease quarter over quarter relates primarily to a decrease in professional fees, computer software costs, insurance and a reduction in the allowance for doubtful accounts.

Finance Costs

(\$ 000s except \$ per BOE)	Three months ended			Nine months ended	
	September 30, 2014	June 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Interest on long-term debt	965	1,081	1,355	3,062	4,833
Other interest	498	370	261	1,210	697
Interest expense	1,463	1,451	1,616	4,272	5,530
\$ per BOE	1.19	1.15	1.49	1.19	1.67
Unwinding of the discounted value of decommissioning liabilities	380	313	284	973	804
Total finance costs	1,843	1,764	1,900	5,245	6,334

Interest on long-term debt decreased \$1,771,000 in 2014 compared to the same period in 2013 as the Company reduced the bank debt outstanding by \$39,040,000 since the end of the second quarter of 2013. The decrease in bank debt was due to increased cash flow, an equity issue in the third quarter of 2013, an increase in a subordinated promissory note and stock option proceeds received in the first half of 2014. The Company also experienced lower interest rates on its credit facilities in 2014 due to a lower net debt to cash flow ratio. Interest rates are determined by net debt to cash flow ratio on a trailing quarterly basis.

Other interest relates to amounts paid to related parties (see related party transactions) and a \$40,000,000 subordinated promissory note from a private investor.

A one percent increase (decrease) in the Canadian prime rate would decrease (increase) both annual net earnings and comprehensive income by approximately \$1,142,000.

Share-based Payments

(\$ 000s)	Three months ended			Nine months ended	
	September 30, 2014	June 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
	838	622	1,055	1,778	3,382

Share-based payments are a statistically calculated value representing the estimated expense of issuing employee stock options. The Company records a compensation expense over the vesting period based on the fair value of options granted to employees, directors and consultants.

Share-based payments decreased by \$1,604,000 from a year ago due to 1,350,500 options issued prior to Q1 2013 that were fully amortized prior to Q1 2014. In 2014 the Company granted most of its options in the second and third quarter.

Based on current outstanding options, the Company anticipates that an expense of approximately \$1,773,000 will be recorded for the remainder of 2014, \$2,251,000 for 2015, \$564,000 for 2016 and \$84,000 for 2017. For more information about options issued and outstanding, refer to Note 10 of the September 30, 2014 condensed financial statements.

Depletion and Depreciation, Exploration and Evaluation and Goodwill

(\$ 000s)	Three months ended			Nine months ended	
	September 30, 2014	June 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Depletion and depreciation	28,119	27,788	18,929	79,722	67,072
Exploration and evaluation expense	-	4	391	28	667

Provision for depletion and depreciation increased by \$12,650,000 for the first nine months of 2014 compared to 2013. The increase in depletion and depreciation was mainly the result of higher production volumes and increased property, plant and equipment costs. Also in the third quarter the Company increased property, plant and equipment costs by \$11,442,000 as a result of a decrease in the risk free rate used for the decommissioning liabilities.

Exploration and evaluation expense related to expired leases.

There were no impairment provisions recorded for the nine month period ended September 30, 2014 and September 30, 2013.

Taxes

The Company recorded a deferred tax expense of \$23,834,000 for the nine months of 2014 (September 30, 2013 - \$19,160,000). The deferred tax expense increase for the first nine months of 2014 compared to 2013 is primarily related to increased earnings before income taxes.

On November 14, 2013, the Company received a proposal letter from the Canada Revenue agency (CRA) which stated its intention to challenge the tax consequences of Bonterra's reorganization from a trust to a Corporation, which occurred on November 18, 2008. The CRA position is based on the acquisition and control rules in addition to the general anti-tax avoidance rules in the Income Tax Act. On August 14, 2014, Bonterra received from CRA, a Notice of Reassessment for the 2009 taxation year for Bonterra Oil and Gas Ltd. (a corporation that amalgamated with Bonterra Energy Corp.), after which Bonterra subsequently filed a Notice of Objection. In 2014, if CRA issues a Notice of Reassessment for Bonterra's 2010 and subsequent taxation periods including the 2009 reassessment received, Bonterra would be required to make a payment of 50% of the tax liability claimed by the CRA in order to appeal this reassessment. If such reassessments are issued and maintained on appeal, Bonterra will owe total cash taxes of approximately \$54 million (of which \$10,907,000 relates to the 2009 Notice of Reassessment) and have to pay approximately 50% (\$27 million) for the taxation years since the conversion including an estimate for the first nine months of 2014 (\$5,454,000 for 2009 Notice of Reassessment). Bonterra would have 90 days from the Notice of Reassessment to prepare and file a Notice of Objection. If the CRA is not in agreement with Bonterra's Notice of Objection, Bonterra has the option to file its case with the Tax Court of Canada. Bonterra anticipates that legal proceedings through various tax courts would take approximately 2 to 4 years. If Bonterra receives a positive ruling, then any taxes, interest and penalties paid to the CRA will be refunded plus interest. If Bonterra is unsuccessful, then the Company will be required to remit any remaining taxes payable plus interest and penalties.

The impact of the proposal on Bonterra's tax provision has been considered by management. Management remains of the opinion, that after careful consideration and consultation at the time of the conversion, Bonterra's subsequent tax filings were correct as filed.

For additional information regarding income taxes, see Note 9 of the September 30, 2014 condensed financial statements.

Net Earnings

(\$ 000s except \$ per share)	Three months ended			Nine months ended	
	September 30, 2014	June 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Net earnings	20,983	27,614	19,690	71,638	47,504
\$ per share – basic	0.65	0.87	0.63	2.24	1.59
\$ per share – diluted	0.65	0.86	0.63	2.23	1.59

Net earnings in the first nine months of 2014 increased by \$24,134,000 or 51 percent from the comparable period of 2013. Increased net earnings resulted primarily from higher oil and gas prices and production volumes, which was partially offset by an increase in production costs, depletion and depreciation and deferred taxes.

The quarter over quarter decrease in net earnings was mainly due to a decrease in oil and gas production volumes and the price of oil, an increase in production costs and depletion and depreciation, which was partially offset by a decrease in deferred taxes.

Other Comprehensive Income

Other comprehensive income for 2014 consists of an unrealized gain before tax on investments (including investment in a related party) of \$2,609,000 relating to an increase in the investments' fair value (September 30, 2013 – unrealized gain of \$1,845,000). The Company also disposed of a portion of these investments in 2014 for a realized gain before tax of \$1,102,000 (September 30, 2013 - \$278,000). Realized gains decrease other comprehensive income as these gains are transferred to net earnings. Other comprehensive income varies from net earnings by unrealized changes in the fair value of Bonterra's holdings of investments including the investment in related party, net of tax.

Cash Flow from Operations

(\$ 000s except \$ per share)	Three months ended			Nine months ended	
	September 30, 2014	June 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Cash flow from operations	65,705	57,089	43,953	171,888	126,124
\$ per share – basic	2.05	1.79	1.41	5.38	4.22
\$ per share – diluted	2.03	1.78	1.40	5.35	4.21

In 2014, cash flow from operations increased by \$45,764,000 compared to the same period a year ago. This was primarily due to an increase in oil and gas sales, production and an increase in non-cash working capital, which were partially offset by an increase in production costs. The quarter over quarter increase of \$8,616,000 was primarily due to an increase in non-cash working capital, which was partially offset by decreased production and lower field netbacks.

Related Party Transactions

Bonterra holds 1,034,523 (December 31, 2013 – 1,034,523) common shares in Pine Cliff which represents less than one percent ownership in Pine Cliff's outstanding common shares. Pine Cliff's common shares have a fair market value as of September 30, 2014 of \$1,810,000 (December 31, 2013 - \$1,076,000). Pine Cliff paid a management fee to the Company of \$45,000 (September 30, 2013 - \$45,000). Services provided by the Company include executive services, accounting services, oil and gas administration and office administration. All services performed are charged at estimated fair value. As at September 30, 2014, the Company had an account receivable from Pine Cliff of \$59,000 (December 31, 2013 – \$217,000).

As at September 30, 2014, the Company's CEO, Chairman of the Board and major shareholder has loaned the Company \$12,000,000 (December 31, 2013 - \$12,000,000). The loan bears interest at Canadian chartered bank prime less 5/8th of a percent and has no set repayment terms but is payable on demand. Security under the

debenture is over all of the Company's assets and is subordinated to any and all claims in favour of the syndicate of senior lenders providing credit facilities to the Company. The loan can only be repaid should the Company have sufficient available borrowing limits under the Company's credit facility. Interest paid on this loan for the first nine months of 2014 was \$213,000 (September 30, 2013 - \$213,000). This loan results in a substantial benefit to Bonterra as the interest paid to the CEO by Bonterra is lower than bank interest.

Liquidity and Capital Resources

Net Debt to Cash Flow

Bonterra continues to focus on managing its cash flow, capital expenditures and dividend payments. The Company continues to meet its annual guidance range of 1 to 1 times to 1.5 to 1 times net debt to a twelve month trailing cash flow ratio with a ratio of 0.86 to 1 times. The Company anticipates that with its low net debt to cash flow ratio and continued successful drilling program, it will allow the Company to sustain future after tax cash flows that will be sufficient to finance future capital expenditures and dividend payments while still operating within its guidance of debt to cash flow ratio.

Working Capital Deficiency

(\$ 000s)	September 30, 2014	December 31, 2013	September 30, 2013
Working capital deficiency	55,047	35,895	43,681
Long-term bank debt	140,339	156,764	147,189
Net debt	195,386	192,659	190,870
Shareholders' equity	697,337	667,641	671,528
Total	892,723	860,300	862,398

Net Debt and Working Capital

Net debt is a combination of long-term bank debt and working capital. Net debt remained relatively unchanged compared to the same period in 2013. This was primarily attributable to the Company's increased cash flow from increased production and higher field netbacks, stock option proceeds and an equity raise in the third quarter of 2013, offset by increased capital spending, and dividends paid to shareholders on a per share basis. In July 2014, the Company raised the monthly dividend from \$0.29 per share to \$0.30 per share.

Working capital is calculated as current liabilities less current assets. The Company finances its working capital deficiency using cash flow from operations, its long-term bank facility, share issuances, option exercises and sale of non-core assets and investments.

Effective January 17, 2014, the Company increased its Subordinated Promissory Note by an additional \$15,000,000, for a total of \$40,000,000 under the same terms and conditions. See Note 7 of the September 30, 2014 condensed financial statements.

The Company has not currently entered into any financial derivative contracts.

Capital Expenditures

During the nine month period ended September 30, 2014, the Company incurred capital costs of \$133,907,000 (September 30, 2014 - \$93,262,000) net of proceeds on disposal of property, plant and equipment. The costs relate primarily to the drilling of 33 gross (32.7 net) Cardium operated horizontal wells and 22 (4.9 net) non-operated wells, a wholly owned gas plant reactivation, and upgrading facilities and gathering systems.

Long-term Debt

Long-term debt represents the outstanding draws from the Company's credit facilities as described in the notes to the Company's condensed financial statements. As of September 30, 2014, the Company has bank facilities consisting of a \$220,000,000 (December 31, 2013 - \$220,000,000) syndicated revolving credit facility and a \$30,000,000 (December 31, 2013 - \$30,000,000) non-syndicated revolving credit facility. Amounts drawn under these facilities at September 30, 2014 totaled \$140,339,000 (December 31, 2013 - \$156,764,000). The interest rates on the outstanding debt as of September 30, 2014 were 3.8 percent and 3.0 percent on the Company's Canadian prime rate loan and Banker's Acceptances, respectively. The loan is revolving to April 30, 2015 and with a maturity date of April 30, 2016 and is subject to annual review. The revolving credit facilities have no fixed terms of repayment.

Advances drawn under the credit facilities are secured by a fixed and floating charge debenture over the assets of the Company. In the event the credit facilities are not extended or renewed, amounts drawn under the facility would be due and payable on the maturity date. The size of the committed credit facilities is based primarily on the value of the Company's producing petroleum and natural gas assets and related tangible assets as determined by the lenders. For more information see Note 8 of the September 30, 2014 condensed financial statements.

Shareholder's Equity

The Company is authorized to issue an unlimited number of common shares without nominal or par value.

The Company is authorized to issue an unlimited number of Class "A" redeemable Preferred Shares and an unlimited number of Class "B" Preferred Shares. There are currently no outstanding Class "A" redeemable Preferred Shares or Class "B" Preferred Shares.

	Number	Amount (\$ 000s)
Issued and fully paid – common shares		
Balance, December 31, 2013	31,322,171	685,898
Issued pursuant to the Company's share option plan	829,452	37,911
Transfer from contributed surplus to share capital		4,021
Shares issued for oil and gas properties	18,000	1,104
Balance, September 30, 2014	32,169,623	728,934

The Company provides a stock option plan for its directors, officers, employees and consultants. Under the plan, the Company may grant options for up to 3,216,962 (December 31, 2013 – 3,132,217) common shares. The exercise price of each option granted will not be lower than the market price of the common shares on the date of grant and the option's maximum term is five years. For additional information regarding options outstanding, see Note 10 of the September 30, 2014 condensed financial statements.

Dividend Policy

For the nine month period ended September 30, 2014, Bonterra paid dividends of \$84,054,000 (\$2.64 per share) compared to \$73,632,000 (\$2.48 per share) in the same period in 2013. Bonterra's dividend policy is regularly monitored and is dependent upon production, commodity prices, funds from operations, debt levels and capital expenditures. With its large inventory of undrilled locations, Bonterra continues to be well positioned to provide to its shareholders a combination of sustainable growth and meaningful dividend income.

Bonterra's dividends to its shareholders are funded by cash flow from operating activities with the remaining cash flow directed towards capital spending and, where applicable, the repayment of debt. To the extent that the excess cash flow from operations after dividends is not sufficient to cover capital spending, the shortfall is funded by funds from the exercising of employee stock options, the sale of investments and by drawdowns from Bonterra's credit facilities. Bonterra intends to provide dividends to shareholders that are sustainable to the Company considering its liquidity and its long-term operational strategy. In addition, since the level of dividends is highly dependent upon cash flow generated from operations, which fluctuates significantly in relation to changes

in financial and operational performance, commodity prices, interest and exchange rates and many other factors, future dividends cannot be assured. Bonterra's payout ratio based on cash flow from operations was 49 percent for the nine months ended September 30, 2014 (58 percent for the nine months ended September 30, 2013).

Quarterly Financial Information

For the periods ended (\$ 000s except \$ per share)	2014				2013			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	
Revenue – oil and gas sales	88,959	99,274	82,521	70,917	78,946	79,344	66,468	
Cash flow from operations	65,705	57,089	49,094	47,772	43,953	41,445	40,726	
Net earnings	20,983	27,614	23,041	15,254	19,690	15,119	12,695	
Per share – basic	0.65	0.87	0.73	0.50	0.63	0.49	0.46	
Per share – diluted	0.65	0.86	0.73	0.49	0.63	0.49	0.46	

For the periods ended (\$ 000s except \$ per share)	2012			
	Q4	Q3	Q2	Q1
Revenue – oil and gas sales	39,624	35,204	31,049	36,893
Cash flow from operations	21,460	16,440	14,727	21,698
Net earnings	6,082	7,746	9,201	10,182
Per share – basic	0.31	0.39	0.47	0.52
Per share – diluted	0.31	0.39	0.46	0.51

The fluctuations in the Company's revenue and net earnings from quarter to quarter are primarily caused by variations in production volumes, realized oil and natural gas pricing and the related impact on royalties. Q1 2013 and subsequent periods' revenue, cash flow and net earnings were higher than the prior quarters due to the Company's continued success with its capital drilling program primarily in the Carnwood area and a corporate acquisition which incurred in the first quarter of 2013.

Critical Accounting Estimates

There have been no changes to the Company's critical accounting policies and estimates as of the period ended in the financial statements.

Forward-Looking Information

Certain statements contained in this MD&A include statements which contain words such as "anticipate", "could", "should", "expect", "seek", "may", "intend", "likely", "will", "believe" and similar expressions, relating to matters that are not historical facts, and such statements of our beliefs, intentions and expectations about development, results and events which will or may occur in the future, constitute "forward-looking information" within the meaning of applicable Canadian securities legislation and are based on certain assumptions and analysis made by us derived from our experience and perceptions. Forward-looking information in this MD&A includes, but is not limited to: expected cash provided by continuing operations; cash dividends; future capital expenditures, including the amount and nature thereof; oil and natural gas prices and demand; expansion and other development trends of the oil and gas industry; business strategy and outlook; expansion and growth of our business and operations; and maintenance of existing customer, supplier and partner relationships; supply channels; accounting policies; credit risks; and other such matters.

All such forward-looking information is based on certain assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances. The risks, uncertainties, and assumptions are difficult to predict and may affect operations, and may include, without limitation: foreign exchange fluctuations; equipment and labour shortages and inflationary costs; general economic conditions; industry conditions; changes in applicable environmental, taxation and other laws and regulations as well as how such laws and regulations are interpreted and enforced; the ability of oil and natural gas companies to raise capital; the effect of weather conditions on operations and facilities; the existence of operating risks; volatility of oil and natural gas prices; oil

and gas product supply and demand; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; increased competition; stock market volatility; opportunities available to or pursued by us; and other factors, many of which are beyond our control. The foregoing factors are not exhaustive. Actual results, performance or achievements could differ materially from those expressed in, or implied by, this forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do, what benefits will be derived therefrom. Except as required by law, Bonterra disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

The forward-looking information contained herein is expressly qualified by this cautionary statement.

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed to ensure the information required to be disclosed by the Company is accumulated and communicated to the Company's Management, as appropriate, to allow timely decisions regarding required disclosures. The Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), together with management, have concluded, based on their evaluation as of the end of the period covered by the interim filing that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the issuer, is made known to them by others within the Company. It should be noted that while the Company's CEO and CFO believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objective of the control system is met.

Internal Control Update

The Company's CEO and CFO are responsible for establishing and maintaining Disclosure Controls and Procedures (DC&P) and adequate Internal Control over Financial Reporting (ICFR) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements as of the end of the period covered by the interim filing for external purposes in accordance with International Financial Reporting Standards. The control framework the Company used to design its ICFR was in accordance with the Committee of Sponsoring Organizations of the Treadway Commission (COSO 1992). The Company's CEO and CFO have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal control over financial reporting at the financial period end of the Company and concluded that the Company's internal control over financial reporting are effective for the foregoing purpose.

No changes were made to the Company's internal controls over financial reporting during the end of the period covered by the interim filing that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

All internal control systems, no matter how well designed, have inherent limitations. These systems, therefore, provide reasonable but not absolute assurance that financial information is accurate and complete.

Financial Reporting Update

As of January 1, 2014, the Company adopted several new IFRS interpretations and amendments in accordance with the transitional provisions of each standard. A brief description of each new accounting policy and its impact on the Company's financial statements are as follows:

IAS 32 "Financial Instruments: Presentation"

Has been amended to clarify certain criteria required to be achieved in order to permit the offsetting of financial assets and financial liabilities. The retrospective adoption of the amendment does not have any impact on Bonterra's financial statements.

IAS 36 "Impairment of Assets"

Has been amended to reduce the circumstances in which the recoverable amount of cash generating units "CGUs" is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in a period. The retrospective adoption of these amendments will only impact Bonterra's disclosures in the financial statements in periods when an impairment loss or impairment reversal is recognized.

IAS 39 "Financial Instruments: Recognition and Measurement"

Has been amended to clarify that there would be no requirement to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The retrospective adoption of the amendments does not have any impact on Bonterra's financial statements.

IFRIC 21 "Levies"

Was developed by the IFRS Interpretations Committee (IFRIC) and is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 "Income Taxes") and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. Lastly, the interpretation clarifies that a liability should not be recognized before the specified minimum threshold to trigger that levy is reached. The retrospective adoption of this interpretation does not have any impact on Bonterra's financial statements.

Future Accounting Pronouncements

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. This standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2017, with earlier adoption permitted. The Company has not yet assessed the impact, if any, that the new amended standard will have on its financial statements or whether to early adopt this new requirement.

In July 2014, the International Accounting Standards Board (IASB) has amended IFRS 9 "Financial Instruments," which amends its classification and measurement of financial assets and introduces a new expected loss impairment model. This standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted and shall be applied retrospectively. The Company has not yet assessed the impact, if any, that the new amended standard will have on its financial statements or whether to early adopt this new requirement.

Share Based Payments

As of May 22, 2014, employees may elect to have the Company settle any or all options vested and exercisable using the cashless equity-settled exercise method. In connection with any such exercise, such employee shall be entitled to receive, without any cash payment (other than the taxes required to be paid in connection with the exercise), whole shares of the Company. The number of shares under option multiplied by the difference of the fair value at the time of exercise less the option exercise price, divided by the fair value at the time of exercise determines the number of whole shares issued.

All other accounting policies remain the same as stated in the Company's audited year ended December 31, 2013 financial statements.

Additional information relating to the Company may be found on www.sedar.com or visit our website at www.bonterraenergy.com.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The information provided in this report, including the financial statements, is the responsibility of management. The timely preparation of the financial statements requires that management make estimates and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates primarily relate to unsettled transactions and events as at the date of the financial statements. Accordingly, actual results may differ from estimated amounts as future confirming events occur. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

The audit committee has reviewed these condensed financial statements with management and has reported to the Board of Directors. The Board of Directors have approved the financial statements as presented in this interim report.

CONDENSED STATEMENT OF FINANCIAL POSITION

As at (unaudited) (\$ 000s)	Note	September 30, 2014	December 31, 2013
Assets			
Current			
Accounts receivable		30,533	27,247
Crude oil inventory		1,212	749
Prepaid expenses		3,053	1,642
Investments		6,064	5,728
		40,862	35,366
Investment in related party	3	1,810	1,076
Exploration and evaluation assets	4	7,554	7,674
Property, plant and equipment	5	910,095	835,935
Investment tax credit receivable	9	27,670	27,670
Goodwill		92,810	92,810
		1,080,801	1,000,531
Liabilities			
Current			
Accounts payable and accrued liabilities		43,909	34,261
Due to related party	6	12,000	12,000
Subordinated promissory note	7	40,000	25,000
		95,909	71,261
Bank debt	8	140,339	156,764
Decommissioning liabilities		55,692	37,362
Deferred tax liability	9	91,524	67,503
		383,464	332,890
Subsequent events	13		
Shareholders' equity			
Share capital	10	728,934	685,898
Contributed surplus		10,548	12,791
Accumulated other comprehensive income		5,080	3,761
Retained earnings (deficit)		(47,225)	(34,809)
		697,337	667,641
		1,080,801	1,000,531

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF COMPREHENSIVE INCOME**For the periods ended September 30 (unaudited)**

(\$ 000s, except \$ per share)

	Note	Three Months		Nine Months	
		2014	2013	2014	2013
Revenue					
Oil and gas sales, net of royalties	11	79,252	68,709	239,924	195,989
Loss on risk management contract		-	(785)	-	(1,242)
Other income	12	998	7	2,077	625
		80,250	67,931	242,001	195,372
Expenses					
Production		18,643	15,963	51,362	42,933
Office and administration		795	1,177	2,682	3,737
Employee compensation		1,805	1,702	5,712	4,583
Finance		1,843	1,900	5,245	6,334
Share-based payments	10	838	1,055	1,778	3,382
Depletion and depreciation	5	28,119	18,929	79,722	67,072
Exploration and evaluation	4	-	391	28	667
		52,043	41,117	146,529	128,708
Earnings before income taxes		28,207	26,814	95,472	66,664
Deferred income taxes		7,224	7,124	23,834	19,160
Net earnings for the period		20,983	19,690	71,638	47,504
Other comprehensive income					
Unrealized gain (loss) on investments		(784)	1,189	2,609	1,845
Deferred taxes on unrealized loss (gain) on investments		98	(149)	(326)	(231)
Realized gain on investments transferred to net earnings		(933)	-	(1,102)	(278)
Deferred taxes on realized gain on investments transferred to net earnings		117	-	138	35
Other comprehensive income (loss) for the period		(1,502)	1,040	1,319	1,371
Total comprehensive income for the period		19,481	20,730	72,957	48,875
Net earnings per share - basic	10	0.65	0.63	2.24	1.59
Net earnings per share – diluted	10	0.65	0.63	2.23	1.59
Comprehensive income per share - basic	10	0.61	0.66	2.29	1.64
Comprehensive income per share – diluted	10	0.60	0.66	2.27	1.63

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF CASH FLOW

For the periods ended September 30 (unaudited)

(\$ 000s)

	Note	Three Months 2014	2013	Nine Months 2014	2013
Operating activities					
Earnings before income taxes		28,207	26,814	95,472	66,664
Items not affecting cash					
Share-based payments		838	1,055	1,778	3,382
Depletion and depreciation		28,119	18,929	79,722	67,072
Exploration and evaluation		-	391	28	667
Unrealized loss on risk management contract		-	(594)	-	(847)
Unwinding of the fair value of decommissioning liabilities		380	284	973	804
Gain on sale of properties		-	(5)	(671)	(217)
Gain on sale of investments		(933)	-	(1,102)	(278)
Investment income		(11)	(19)	(44)	(86)
Interest expense		(1,463)	(1,617)	(4,272)	(5,530)
Change in non-cash working capital accounts:					
Change in accounts receivable		7,803	(178)	(1,907)	(3,309)
Change in crude oil inventory		(339)	(155)	(206)	(23)
Change in prepaid expenses		1,478	(873)	(1,411)	(1,023)
Change in accounts payable and accrued liabilities		448	(1,638)	315	(6,377)
Decommissioning expenditures		(285)	(58)	(1,059)	(305)
Interest Paid		1,463	1,617	4,272	5,530
Cash provided by operating activities		65,705	43,953	171,888	126,124
Financing activities					
Decrease in bank debt		(10,806)	(32,190)	(16,425)	(19,619)
Subordinated promissory note		-	-	15,000	10,000
Issuance of common shares		-	27,603	-	27,603
Share issue costs		-	(1,325)	-	(1,325)
Stock option proceeds		6,608	761	37,911	761
Dividends		(28,874)	(26,199)	(84,054)	(73,632)
Cash used in financing activities		(33,072)	(31,350)	(47,568)	(56,212)
Investing activities					
Investment income received		11	19	44	86
Exploration and evaluation expenditures		(327)	(23)	(327)	(36)
Property, plant and equipment expenditures		(40,878)	(34,010)	(134,732)	(95,640)
Proceeds on sale of properties	4	-	8	1,152	2,414
Proceeds on sale of investments		1,094	-	1,539	968
Cash acquired on acquisition		-	-	-	10,000
Change in non-cash working capital accounts:					
Change in accounts payable and accrued liabilities		8,415	21,415	9,333	8,211
Change in accounts receivable		(948)	(12)	(1,329)	4,085
Cash used in investing activities		(32,633)	(12,603)	(124,320)	(69,912)
Net cash inflow		-	-	-	-
Cash, beginning of period		-	-	-	-
Cash, end of period		-	-	-	-

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF CHANGES IN EQUITY

For the periods ended (unaudited)

(\$ 000s, except number of shares outstanding)

	Number of shares outstanding (Note 10)	Share capital (Note 10)	Contributed surplus ⁽¹⁾	Accumulated other comprehensive income ⁽²⁾	Retained earnings (deficit)	Total shareholders' equity
January 1, 2013	19,909,541	149,877	9,167	1,620	2,613	163,277
Share-based payments			3,382			3,382
Acquisition	10,711,405	502,258				502,258
Share issuance	553,725	27,603				27,603
Share issue costs, net of tax	-	(996)				(996)
Exercise of options	17,500	761				761
Transfer to share capital on exercise of options		88	(88)			-
Comprehensive income				1,371	47,504	48,875
Dividends					(73,632)	(73,632)
September 30, 2013	31,192,171	679,591	12,461	2,991	(23,515)	671,528
Share-based payments			773			773
Share issuance	-	-				-
Share issue costs, net of tax		-				-
Exercise of options	130,000	5,864				5,864
Transfer to share capital on exercise of options		443	(443)			-
Comprehensive income				770	15,254	16,024
Dividends					(26,548)	(26,548)
December 31, 2013	31,322,171	685,898	12,791	3,761	(34,809)	667,641
Share-based payments			1,778			1,778
Exercise of options	829,452	37,911				37,911
Transfer to share capital on exercise of options		4,021	(4,021)			-
Shares issued for oil and gas properties	18,000	1,104				1,104
Comprehensive income				1,319	71,638	72,957
Dividends					(84,054)	(84,054)
September 30, 2014	32,169,623	728,934	10,548	5,080	(47,225)	697,337

⁽¹⁾ Contributed surplus comprises of share-based payments

⁽²⁾ Accumulated other comprehensive income comprises of unrealized gains and losses on available-for-sale investments

See accompanying notes to these condensed financial statements.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

As at September 30, 2014 and December 31, 2013 and for the three and nine months ended September 30, 2014 and 2013 (unaudited)

1. NATURE OF BUSINESS AND SEGMENT INFORMATION

Bonterra Energy Corp. (Bonterra or the Company) is a public company listed on the Toronto Stock Exchange and incorporated under the Business Corporations Act (Alberta). The address of the Company's registered office is Suite 901, 1015-4th Street SW, Calgary, Alberta, Canada, T2R 1J4.

Bonterra operates in one industry and has only one reportable segment being the development and production of oil and natural gas in the Western Canadian Sedimentary Basin.

The financial statements were authorized for issue by the Company's Board of Directors on November 11, 2014.

2. BASIS OF PREPARATION

a) Statement of Compliance

The Company prepares its financial statements in accordance with International Accounting Standard 34 – Interim Financial Reporting (IAS 34).

The accounting policies and method of computation followed in the preparation of the condensed financial statements are the same as those followed in the preparation of Bonterra's 2013 audited annual financial statements, except for the accounting policy change listed below. These condensed financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the 2013 audited annual financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

b) Share based payments

As of May 22, 2014, employees may elect to have the Company settle any or all options vested and exercisable using the cashless equity-settled exercise method. In connection with any such exercise, such employee shall be entitled to receive, without any cash payment (other than the taxes required to be paid in connection with the exercise), whole shares of the Company. The number of shares under option multiplied by the difference of the fair value at the time of exercise less the option exercise price, divided by the fair value at the time of exercise determines the number of whole shares issued.

c) Recent Accounting Pronouncements

As of January 1, 2014, the Company adopted several new IFRS interpretations and amendments in accordance with the transitional provisions of each standard. A brief description of each new accounting policy and its impact on the Company's financial statements are as follows:

IAS 32 “Financial Instruments: Presentation”

Has been amended to clarify certain criteria required to be achieved in order to permit the offsetting of financial assets and financial liabilities. The retrospective adoption of the amendment does not have any impact on Bonterra’s financial statements.

IAS 36 “Impairment of Assets”

Has been amended to reduce the circumstances in which the recoverable amount of cash generating units “CGUs” is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in a period. The retrospective adoption of these amendments will only impact Bonterra’s disclosures in the financial statements in periods when an impairment loss or impairment reversal is recognized.

IAS 39 “Financial Instruments: Recognition and Measurement”

Has been amended to clarify that there would be no requirement to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The retrospective adoption of the amendment does not have any impact on Bonterra’s financial statements.

IFRIC 21 “Levies”

Was developed by the IFRS Interpretations Committee (IFRIC) and is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 “Income Taxes”) and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. Lastly, the interpretation clarifies that a liability should not be recognized before the specified minimum threshold to trigger that levy is reached. The retrospective adoption of this interpretation does not have any impact on Bonterra’s financial statements.

d) Future Accounting Pronouncements

In May 2014, the IASB issued IFRS 15 “Revenue from Contracts with Customers,” which replaces IAS 18 “Revenue,” IAS 11 “Construction Contracts,” and related interpretations. This standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2017, with earlier adoption permitted. The Company has not yet assessed the impact, if any, that the new amended standard will have on its financial statements or whether to early adopt this new requirement.

In July 2014, the International Accounting Standards Board (IASB) has amended IFRS 9 “Financial Instruments”, which amends its classification and measurement of financial assets and introduces a new expected loss impairment model. This standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted and shall be applied retrospectively. The Company has not yet assessed the impact, if any, that the new amended standard will have on its financial statements or whether to early adopt this new requirement.

3. INVESTMENT IN RELATED PARTY

The investment consists of 1,034,523 (December 31, 2013 – 1,034,523) common shares in Pine Cliff Energy Ltd. (Pine Cliff), a company with some common directors and some common management with Bonterra. The investment in Pine Cliff represents less than one percent ownership in the outstanding common shares of Pine Cliff and is recorded at fair market value through other comprehensive income. The common shares of Pine Cliff trade on the TSX Venture Exchange under the symbol PNE.

In addition, Geomark Exploration Ltd. (a wholly owned subsidiary of Pine Cliff) owns 204,633 (December 31, 2013 – 204,633) common shares in Bonterra.

4. EXPLORATION AND EVALUATION ASSETS

(\$ 000s)

Cost and carrying amount	
Balance at December 31, 2013	7,674
Additions	327
Disposal	(419)
Expiry of exploration and evaluation assets	(28)
Balance at September 30, 2014	7,554

In January 2014, the Company sold a portion of its undeveloped land in the Willesden Green area for cash proceeds of \$1,000,000. At the time of disposition, the Company had a carrying value of \$419,000 for these exploration and evaluation expenditures, resulting in a gain on sale of \$581,000.

5. PROPERTY, PLANT AND EQUIPMENT

Cost (\$ 000s)	Oil and gas properties	Production facilities	Furniture, fixtures & other equipment	Total property, plant & equipment
Balance at December 31, 2013	892,166	215,950	1,940	1,110,056
Additions	104,968	30,791	26	135,785
Adjustment to decommissioning liabilities ⁽¹⁾	18,416	-	-	18,416
Disposal	(2)	(62)		(64)
Balance at September 30, 2014	1,015,548	246,679	1,966	1,264,193

Accumulated Depletion and Depreciation (\$ 000s)	Oil and gas properties	Production facilities	Furniture, fixtures & other equipment	Total property, plant & equipment
Balance at December 31, 2013	(217,522)	(55,278)	(1,321)	(274,121)
Depletion and depreciation	(65,428)	(14,215)	(79)	(79,722)
Disposal and other	(255)	-	-	(255)
Balance at September 30, 2014	(283,205)	(69,493)	(1,400)	(354,098)

Carrying amounts as at:

(\$ 000s)

December 31, 2013	674,644	160,672	619	835,935
September 30, 2014	732,343	177,186	566	910,095

⁽¹⁾ Adjustment to decommissioning liabilities is from a decrease in the risk free rate and a change in estimate on decommissioning costs.

The impairment of property, plant and equipment assets and any subsequent reversal of such impairment losses are recognized in the statement of comprehensive income. There were no impairment losses or reversals recorded in the statement of comprehensive income for the three and nine months ended September 30, 2014 and 2013.

6. TRANSACTIONS WITH RELATED PARTIES

As at September 30, 2014, the Company's CEO, Chairman of the Board and major shareholder has loaned the Company \$12,000,000 (December 31, 2013 - \$12,000,000). The loan bears interest at Canadian chartered bank prime less 5/8th of a percent and has no set repayment terms but is payable on demand. Security under the debenture is over all of the Company's assets and is subordinated to any and all claims in favour of the syndicate of senior lenders providing credit facilities to the Company. Interest paid on this loan during the first nine months was \$213,000 (September 30, 2014 - \$213,000).

The Company received a management fee of \$45,000 for the nine months ended September 30, 2014 (September 30, 2013 - \$45,000) for management services and office administration from Pine Cliff. This fee has been included in other income. As at September 30, 2014, the Company had an account receivable from Pine Cliff for these management fees and the reimbursement of certain administration costs of \$59,000 (December 31, 2013 - \$217,000).

7. SUBORDINATED PROMISSORY NOTE

As at September 30, 2014, Bonterra borrowed \$40,000,000 (December 31, 2013 - \$25,000,000) from a private investor, in exchange for a Subordinated Promissory Note. The terms of the Subordinated Promissory Note are that it bears interest at three percent and is repayable after thirty days written notice by either party. Security consists of a floating demand debenture totaling \$40,000,000 over all of the Company's assets and is subordinated to any and all claims in favor of the syndicate of senior lenders providing credit facilities to the Company. Interest paid on the subordinated promissory note during the first nine months was \$873,000 (September 30, 2013 - \$487,000).

The Company's bank agreement requires that the above loan can only be repaid should the Company have sufficient available borrowing limits under the Company's credit facility.

8. BANK DEBT

As at September 30, 2014, the Company has bank facilities consisting of a \$220,000,000 (December 31, 2013 - \$220,000,000) syndicated revolving credit facility and a \$30,000,000 (December 31, 2013 - \$30,000,000) non-syndicated revolving credit facility, for total facilities of \$250,000,000. Amounts drawn under the credit facilities at September 30, 2014 were \$140,339,000 (December 31, 2013 - \$156,764,000). Amounts borrowed under the credit facilities bear interest at a floating rate based on the applicable Canadian prime rate, which is presently three percent or Banker's Acceptance rate, plus between 0.75 percent and 3.50 percent, depending on the type of borrowing and the Company's consolidated total funded debt to consolidated cash flow. The terms of the revolving credit facilities provided that the loan is revolving to April 30, 2015 and with a maturity date of April 30, 2016 and is subject to annual review. The revolving credit facilities have no fixed terms of repayment.

The amount available for borrowing under the credit facilities is reduced by outstanding letters of credit. Letters of credit totaling \$700,000 were issued as at September 30, 2014 (December 31, 2013 - \$700,000). Security for credit facilities consists of various and floating demand debentures totaling \$400,000,000 (December 31, 2013 - \$400,000,000) over all of the Company's assets and a general security agreement with first ranking over all personal and real property.

The following is a list of the material covenants on the banking facility:

- The Company is required to not exceed \$250,000,000 in consolidated debt (includes working capital but excludes amounts due to related parties and the subordinated promissory note).
- Dividends paid in the current quarter shall not exceed 80 percent of the average available cash flow for the preceding four fiscal quarters.

Available cash flow is defined to be cash provided by operating activities excluding gains on sale of property and investments, the change in non-cash working capital and decommissioning liabilities settled and including all net proceeds of dispositions included in cash used in investing activities. At September 30, 2014, the Company is in compliance with all covenants.

9. INCOME TAXES

The Company has the following tax pools, which may be used to reduce taxable income in future years, limited to the applicable rates of utilization:

(\$ 000s)	Rate of Utilization (%)	Amount
Undepreciated capital costs	20-100	92,939
Eligible capital expenditures	7	5,224
Share issue costs	20	5,143
Canadian oil and gas property expenditures	10	63,601
Canadian development expenditures	30	252,860
Canadian exploration expenditures	100	8,182
Income tax losses carried forward ⁽¹⁾	100	94,240
		522,189

⁽¹⁾ Federal income tax losses carried forward expire in the following years; 2026 - \$36,560,000; 2027 - \$35,248,000; 2028 - \$13,131,000; 2031 - \$9,301,000.

The Company has \$27,670,000 (December 31, 2013 - \$27,670,000) remaining of investment tax credits that expire in the following years; 2018 - \$3,469,000; 2019 - \$3,059,000; 2020 - \$4,667,000; 2021 - \$3,909,000; 2022 - \$3,155,000; 2023 - \$1,995,000; 2024 - \$2,257,000; 2025 - \$2,405,000; 2026 - \$2,009,000; and 2027 - \$745,000.

The Company also has \$133,259,000 (December 31, 2013 - \$134,938,000) of capital loss carry forwards which can only be claimed against taxable capital gains.

On November 14, 2013, the Company received a proposal letter from the Canada Revenue agency (CRA) which stated its intention to challenge the tax consequences of Bonterra's reorganization from a trust to a Corporation, which occurred on November 18, 2008. The CRA position is based on the acquisition and control rules in addition to the general anti-tax avoidance rules in the Income Tax Act. On August 14, 2014, Bonterra received from CRA, a Notice of Reassessment for the 2009 taxation year for Bonterra Oil and Gas Ltd. (a corporation that amalgamated with Bonterra Energy Corp.), after which Bonterra subsequently filed a Notice of Objection. In 2014, if CRA issues a Notice of Reassessment for Bonterra's 2010 and subsequent taxation periods including the 2009 reassessment received, Bonterra would be required to make a payment of 50% of the tax liability claimed by the CRA in order to appeal this reassessment. If such reassessments are issued and maintained on appeal, Bonterra will owe total cash taxes of approximately \$54 million (of which \$10,907,000 relates to the 2009 Notice of Reassessment) and have to pay approximately 50% (\$27 million) for the taxation years since the conversion including an estimate for the first nine months of 2014 (\$5,454,000 for 2009 Notice of Reassessment). Bonterra would have 90 days from the Notice of Reassessment to prepare and file a Notice of Objection. If the CRA is not in agreement with Bonterra's Notice of Objection, Bonterra has the option to file its case with the Tax Court of Canada. Bonterra anticipates that legal proceedings through various tax courts would take approximately 2 to 4 years. If Bonterra receives a positive ruling, then any taxes, interest and penalties paid to the CRA will be refunded plus interest. If Bonterra is unsuccessful, then the Company will be required to remit any remaining taxes payable plus interest and penalties.

The impact of the proposal on Bonterra's tax provision has been considered by management. Management remains of the opinion, that after careful consideration and consultation at the time of the conversion, Bonterra's subsequent tax filings were correct as filed.

10. SHAREHOLDERS' EQUITY

Authorized

The Company is authorized to issue an unlimited number of common shares without nominal or par value.

	Number	Amount (\$ 000s)
Issued and fully paid – common shares		
Balance, December 31, 2013	31,322,171	685,898
Issued pursuant to the Company's share option plan	829,452	37,911
Transfer from contributed surplus to share capital		4,021
Shares issued for oil and gas properties	18,000	1,104
Balance, September 30, 2014	32,169,623	728,934

The Company is authorized to issue an unlimited number of Class "A" redeemable Preferred Shares and an unlimited number of Class "B" Preferred Shares. There are currently no outstanding Class "A" redeemable Preferred Shares or Class "B" Preferred Shares.

The weighted average common shares used to calculate basic and diluted net earnings per share for the three and nine months ended September 30 is as follows:

	Three Months		Nine Months	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Basic shares outstanding	32,087,419	31,180,457	31,921,177	29,867,837
Dilutive effect of share options ⁽¹⁾	230,733	135,877	188,504	86,883
Diluted shares outstanding	32,318,152	31,316,334	32,109,681	29,954,720

⁽¹⁾ The Company did not include 857,000 share options for the three months ended September 30, 2014 (September 30, 2013 – 592,000) and 1,009,000 share options for the nine months ended September 30 2014 (September 30, 2013 – 1,013,000) in the dilutive effect of share options calculation as these share options were anti-dilutive.

For the three months ended September 30, 2014, the Company declared and paid dividends of \$28,874,000 (\$0.90 per share) (September 30, 2013 - \$26,199,000 (\$0.84 per share)). For the nine months ended September 30, 2014, the Company declared and paid dividends of \$84,054,000 (\$2.64 per share) (September 30, 2013 - \$73,632,000 (\$2.48 per share)).

The Company provides an equity settled option plan for its directors, officers, employees and consultants. Under the plan, the Company may grant options for up to 3,216,962 (December 31, 2013 – 3,132,217) common shares. The exercise price of each option granted cannot be lower than the market price of the common shares on the date of grant and the option's maximum term is five years.

A summary of the status of the Company's stock option plan as of September 30, 2014, and changes during the period ended on those dates is presented below:

	Number of options	Weighted average exercise price
Balance, December 31, 2013	1,650,500	\$48.31
Options granted	1,724,000	56.64
Options exercised	(904,000)	47.09
Options forfeited	(194,000)	49.09
Options expired	(120,000)	58.67
Balance, September 30, 2014	2,156,500	\$54.83

The following table summarizes information about options outstanding at September 30, 2014:

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number outstanding at September 30, 2014	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at September 30, 2014	Weighted-average exercise price
\$ 40.00 – \$ 50.00	326,000	1.3 years	\$46.16	73,000	\$44.26
50.01 – 60.00	1,031,500	1.1 years	52.62	160,000	51.21
60.01 – 65.00	799,000	2.0 years	61.21	-	-
\$ 40.00 – \$ 65.00	2,156,500	1.5 years	\$54.83	233,000	\$49.03

The Company records compensation expense over the vesting period, which ranges between one to three years, based on the fair value of options granted to employees, directors and consultants. In 2014, the Company granted 1,724,000 stock options with an estimated fair value of \$4,862,000 or \$2.82 per option using the Black-Scholes option pricing model with the following key assumptions:

	September 30, 2014
Weighted-average risk free interest rate (%) ⁽¹⁾	1.04
Expected life (years)	1.4
Weighted-average volatility (%) ⁽²⁾	17.57
Forfeiture rate (%)	1.0
Weighted average dividend yield (%)	6.26

⁽¹⁾ Risk-free interest rate is based on the weighted average Government of Canada benchmark bond yields for one, two, and three year terms to match corresponding vesting periods.

⁽²⁾ The expected volatility is measured as the standard deviation of expected share price returns based on statistical analysis of historical weekly share prices for a representative period.

11. OIL AND GAS SALES, NET OF ROYALTIES

(\$ 000s)	Three Months		Nine Months	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Oil and gas sales	88,959	78,946	270,754	224,758
Less:				
Crown royalties	(6,045)	(4,598)	(18,758)	(13,485)
Freehold, gross overriding royalties and other	(3,662)	(5,639)	(12,072)	(15,284)
Oil and gas sales, net of royalties	79,252	68,709	239,924	195,989

12. OTHER INCOME

(\$ 000s)	Three Months		Nine Months	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Investment income	11	19	44	86
Administrative income (loss)	54	(17)	260	44
Gain on sale of properties	-	5	671	217
Realized gain on investments	933	-	1,102	278
Other income	998	7	2,077	625

13. SUBSEQUENT EVENTS

i) Dividends

Subsequent to September 30, 2014, the Company declared the following dividends:

Date declared	Record date	\$ per share	Date payable
October 1, 2014	October 15, 2014	0.30	October 31, 2014
November 3, 2014	November 14, 2014	0.30	November 28, 2014

Corporate Information

Board of Directors

G. F. Fink - Chairman
G. J. Drummond
R. M. Jarock
C. R. Jonsson
R. A. Tourigny

Officers

G. F. Fink, CEO and Chairman of the Board
R. D. Thompson, CFO and Corporate Secretary
A. Neumann, Chief Operating Officer
B. A. Curtis, Vice President, Business Development

Registrar and Transfer Agent

Computershare Trust Company of Canada, Calgary, Alberta

Auditors

Deloitte LLP, Calgary, Alberta

Solicitors

Borden Ladner Gervais LLP, Calgary, Alberta

Bankers

CIBC, Calgary, Alberta
Alberta Treasury Branch, Calgary, Alberta
National Bank of Canada, Calgary, Alberta
TD Securities, Calgary, Alberta
J.P. Morgan, Calgary, Alberta

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