

# Bonterra Oil & Gas Ltd.



## Second Quarter 2009

### HIGHLIGHTS

(\$ 000 except \$ per share/unit)	Three months ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
<b>FINANCIAL</b>				
Revenue – realized oil and gas sales	<b>20,501</b>	34,398	<b>39,801</b>	64,891
Cash flow from operations	<b>9,238</b>	20,530	<b>15,870</b>	36,742
Per share/unit – basic	<b>0.52</b>	1.21	<b>0.91</b>	2.16
Per share/unit – diluted	<b>0.52</b>	1.19	<b>0.91</b>	2.15
Payout ratio <sup>(1)</sup>	<b>77%</b>	69%	<b>83%</b>	71%
Funds flow <sup>(3)</sup>	<b>9,780</b>	21,352	<b>18,156</b>	39,410
Per share/unit – basic	<b>0.55</b>	1.25	<b>1.04</b>	2.32
Per share/unit – diluted	<b>0.55</b>	1.24	<b>1.04</b>	2.31
Payout ratio <sup>(1)</sup>	<b>73%</b>	67%	<b>73%</b>	67%
Cash dividends per share/unit <sup>(1)</sup>	<b>0.40</b>	0.84	<b>0.76</b>	1.54
Net earnings	<b>4,544</b>	12,912	<b>10,637</b>	23,716
Per share/unit – basic	<b>0.26</b>	0.76	<b>0.61</b>	1.40
Per share/unit – diluted	<b>0.26</b>	0.75	<b>0.61</b>	1.39
Capital expenditures and acquisitions	<b>2,255</b>	2,543	<b>4,956</b>	8,964
Total assets			<b>258,393</b>	153,247
Working capital deficiency			<b>13,989</b>	57,148
Long-term debt			<b>71,573</b>	-
Shareholders'/unitholders' equity			<b>72,332</b>	46,612
<b>OPERATIONS</b>				
Oil and NGLs – barrels per day	<b>3,029</b>	3,024	<b>3,148</b>	3,088
– average price (\$ per barrel)	<b>59.77</b>	101.69	<b>52.56</b>	94.31
Natural gas – MCF per day	<b>11,912</b>	7,272	<b>12,067</b>	7,206
– average price (\$ per MCF)	<b>3.64</b>	9.61	<b>4.42</b>	8.97
Total barrels of oil equivalent per day (BOE) <sup>(2)</sup>	<b>5,014</b>	4,236	<b>5,159</b>	4,289

<sup>(1)</sup> Cash payments per share/unit are based on payments made in respect of production months within the quarter.

<sup>(2)</sup> BOE is calculated using a conversion ratio of 6 MCF to 1 barrel of oil. The conversion is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead and as such may be misleading if used in isolation.

<sup>(3)</sup> Funds flow is not a recognized measure under GAAP. For these purposes, the Company defines funds flow as funds provided by operations before changes in non-cash operating working capital items excluding gain on sale of property and asset retirement expenditures.

## REPORT TO SHAREHOLDERS

Bonterra Oil & Gas Ltd. (Bonterra or the Company) is pleased to report the operating and financial results for the three months and six months ended June 30, 2009.

The second quarter is generally a difficult period from a production volume perspective due to road bans making it difficult to repair or complete wells and gas plant maintenance and repairs are generally done in May and June which results in wells having to be shut in. The low commodity price environment, most notably in natural gas prices, has also continued to negatively impact financial results during the first half of 2009 compared with the same period in 2008.

Despite these difficult economic times, Bonterra has been able to make positive advances in many areas. It has been able to substantially reduce its bank debt, increase its inventory of non-producing properties and most importantly, has increased its confidence in the potential for economic success in drilling horizontal wells in the Cardium zone in the Pembina field. In addition, Bonterra is proud to report that it is one of a small number of trusts or companies that has increased its monthly payment to shareholders/unitholders (by 17 percent) in 2009 and this quarter represents the 44<sup>th</sup> consecutive quarter dating back to 1998 in which positive net earnings were achieved.

### Operations

Bonterra's production averaged 5,014 BOE per day in the second quarter of 2009, an increase of 18.4 percent over the second quarter of 2008. The increase is due mainly to additional production from the Company's first Pembina Cardium horizontal well, the fourth quarter 2008 drilling program and the Silverwing Energy Inc. acquisition, including the subsequent optimization of the Silverwing existing wells. The company continues to project a 20 percent increase in 2009 average daily production rates over the previous year.

Bonterra's capital expenditures during the quarter totaled approximately \$2.3 million and for the first half of the year totaled approximately \$5.0 million. This included the start of the 2009 drilling program in June which included the drilling of our second Cardium horizontal well, participating in several smaller interest gas wells, completion and tie-in costs related to the Q408 drilling program, the purchase of additional land rights in the Pembina area of Alberta and various project and facility upgrades to enhance existing production.

The majority of the \$20 million 2009 capital development drilling program will be spent in the latter half of the year with a strong focus on the Pembina Cardium horizontal program. Bonterra has a significant land position in the Pembina field with a large amount of undeveloped land with similar reservoir characteristics to the Company's first successful horizontal well. Bonterra also has a \$10,000,000 capital budget in 2009 for acquisitions of Cobalt Energy Ltd. and additional producing and non-producing lands.

The first horizontal well produced at an average rate of approximately 250 barrels of oil per day in February 2009, its first month of production. The well is currently producing in excess of 100 barrels of oil per day and approximately 40 MCF per day of solution gas. The second horizontal well was drilled in June, completed and tested in July and commenced production in August, 2009.

The horizontal program provides Bonterra with the opportunity to continue unlocking further value from the Pembina field, Canada's largest original-oil-in-place field. The Company has identified an additional 80 horizontal locations and is planning to drill three to four additional horizontal Cardium wells in 2009 (working interests range from 68 to 100 percent) to further evaluate the play.

### Improved Financial Strength

During the second quarter of 2009, the Company took several steps towards improving its financial position. Bonterra entered into a new syndicated banking facility effective April 29, 2009 consisting of a \$100 million syndicated revolving credit facility and a \$20 million non-syndicated revolving credit facility. In addition, the

Company issued 1,068,000 common shares at a price of \$16.85 per share for net proceeds of \$16,985,000 with the funds used to retire debt and for general working capital.

Bonterra is continuing to seek additional ways to improve the financial position through project reviews, cost reduction programs and operational efficiencies. The improved financial position provides increased flexibility for the Company to fund its 2009 capital development program and to pursue additional acquisition opportunities that may become available.

Subsequent to quarter end, Bonterra was able to successfully close the strategic acquisition of Cobalt Energy Ltd. (Cobalt), a junior oil and gas exploration company. The acquisition is expected to result in additional production of approximately 40 BOE per day during the second half of 2009 and also includes increased working interests in approximately 11 sections of land which has prospective horizontal drilling opportunities.

#### **Commodity Prices**

Oil prices have continued to recover during the second quarter of the year and into the third quarter. The Company's average realized price for crude oil and natural gas liquids was \$59.77 in the second quarter of 2009 versus \$45.80 recorded during the first quarter of the year. Higher crude oil prices were partially offset by the continued decline in natural gas prices from \$5.19 per MCF in Q109 to \$3.64 per MCF in Q209. However, Bonterra recorded a 17 percent increase in funds flow from operations and a 23 percent increase in cash netbacks quarter over quarter.

As a result of the improved oil price environment and strong production levels, Bonterra was able to increase the dividend to shareholders to \$0.14 per share beginning with the June 30, 2009 dividend payment (May 2009 production month) from \$0.12 per share previously. Cash payments to shareholders during the second quarter of 2009 totaled \$0.40 per share with a payout ratio of 73 percent of fund flow. The Board of directors and management will continue to monitor dividend levels, payout ratios and capital expenditures on a monthly basis and will adjust the amount if necessary.

Natural gas prices have continued to collapse. Prices declined significantly to \$3.64 per MCF during the second quarter of 2009 and the Company's average realized price decreased approximately 30 percent quarter over quarter and over 62 percent compared with the same period in 2008.

It is difficult to predict when natural gas prices might recover. The low price environment negatively impacts funds flow, but may provide opportunities for the Company to further grow its asset base through acquisitions. Bonterra has historically made acquisitions counter-cyclically and this strategic approach remains significant in today's marketplace. The Company's strong balance sheet provides the ability to move quickly and the junior sector continues to operate within a difficult business environment. As a result, there has been an increase in assets for sale and Bonterra will endeavor to take advantage of any opportunities to add additional value to its portfolio.

#### **Summary**

As the Company moves into the second half of 2009, it will continue to execute its long-term strategy to maximize shareholder returns through prudent financial management while conservatively growing the Company with a targeted exploitation and development program.



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



Randy M. Jarock  
President and Chief Operating Officer

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following report dated August 11, 2009 is a review of the operations and current financial position for Bonterra Oil & Gas Ltd. ("Bonterra" or the "Company") and should be read in conjunction with the unaudited financial statements for the six months ended June 30, 2009, including the notes related thereto, and the audited financial statements for the fiscal year ended December 31, 2008, together with the notes related thereto.

### Non-GAAP Measures

Throughout the MD&A we use the terms "payout ratio" and "cash netback" to analyze operating performance. Payout ratio is calculated by dividing cash distributions/dividends to unitholders/shareholders by cash flow from operating activities both of which are measures prescribed by GAAP which appear on our consolidated statements of cash flows. Cash netback is calculated by dividing various operation and deficit statement items as determined by GAAP by total production on a barrel of oil equivalent basis. The above terms do not have standardized meaning or definition as prescribed by GAAP and therefore may not be comparable with the calculation of similar measures by other entities."

### 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.

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 there from. 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.

## FINANCIAL AND OPERATIONAL DISCUSSION

### Quarterly Comparisons

Financial (\$ 000 except \$ per share)	2009	
	Q2	Q1
Revenue – realized oil and gas sales	<b>20,501</b>	19,300
Cash flow from operations	<b>9,238</b>	6,632
Per share – basic	<b>0.52</b>	0.38
Per share – fully diluted	<b>0.52</b>	0.38
Cash payments per share <sup>(1)</sup>	<b>0.40</b>	0.36
Payout Ratio <sup>(1)</sup>	<b>77%</b>	94%
Net earnings	<b>4,544</b>	6,093
Per share – basic	<b>0.26</b>	0.35
Per share – fully diluted	<b>0.26</b>	0.35
Capital expenditures and acquisitions	<b>2,255</b>	2,696
Total assets	<b>258,393</b>	260,732
Working capital deficiency	<b>13,989</b>	14,909
Long-term debt	<b>71,573</b>	89,383
Shareholders' equity	<b>72,332</b>	56,377
Operations		
Oil and NGLs (barrels per day)	<b>3,029</b>	3,268
Natural gas (MCF per day)	<b>11,912</b>	12,223
Total BOE per day <sup>(2)</sup>	<b>5,014</b>	5,305

Financial (\$ 000 except \$ per share/unit)	2008			
	Q4	Q3	Q2	Q1
Revenue – realized oil and gas sales	22,613	34,226	34,398	30,493
Cash flow from operations	10,336	22,492	20,530	16,212
Per share/unit – basic	0.59	1.31	1.21	0.96
Per share/unit – fully diluted	0.59	1.30	1.20	0.96
Cash payments per share/unit <sup>(1)</sup>	0.62	0.96	0.84	0.70
Payout Ratio <sup>(1)</sup>	105%	73%	69%	73%
Net earnings	10,585	21,125	12,912	10,804
Per share/unit – basic	0.62	1.23	0.76	0.64
Per share/unit – fully diluted	0.62	1.22	0.75	0.64
Capital expenditures and acquisitions	30,405	6,038	2,543	6,421
Total assets	265,301	150,120	153,247	150,169
Working capital deficiency	23,878	47,499	57,148	57,810
Long-term debt	79,910	-	-	-
Shareholders'/unitholders' equity	56,777	57,623	46,612	48,136
Operations				
Oil and NGLs (barrels per day)	3,105	3,013	3,024	3,153
Natural gas (MCF per day)	8,892	7,233	7,272	7,139
Total BOE per day <sup>(2)</sup>	4,587	4,219	4,236	4,343

Financial (\$ 000 except \$ per unit)	2007			
	Q4	Q3	Q2	Q1
Revenue – realized oil and gas sales	26,573	23,794	23,462	22,602
Cash flow from operations	13,369	11,886	13,413	12,765
Per unit – basic	0.79	0.70	0.79	0.76
Per unit – fully diluted	0.79	0.70	0.79	0.76
Cash distributions <sup>(1)</sup>	0.66	0.66	0.66	0.66
Payout Ratio <sup>(1)</sup>	84%	94%	84%	87%
Net earnings	8,372	8,945	5,371	7,662
Per unit – basic	0.49	0.53	0.32	0.45
Per unit – fully diluted	0.49	0.53	0.32	0.45
Capital expenditures and acquisitions	7,213	2,763	1,699	7,625
Total assets	143,239	138,140	139,432	140,926
Working capital deficiency	58,766	50,041	49,595	49,288
Long-term debt	-	-	-	-
Unitholders' equity	44,218	50,820	51,920	57,646
Operations				
Oil and NGLs (barrels per day)	3,098	3,054	3,074	3,227
Natural gas (MCF per day)	7,176	6,196	6,663	6,470
Total BOE per day <sup>(2)</sup>	4,295	4,086	4,184	4,305

<sup>(1)</sup> Cash payments per share/unit are based on payments made in respect of production months within the quarter.

<sup>(2)</sup> BOE is calculated using a conversion ratio of 6 MCF to 1 barrel of oil. The conversion is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead and as such may be misleading if used in isolation.

## Production

	Three months ended			Six months ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Crude oil and NGLs (barrels per day)	<b>3,029</b>	3,268	3,024	<b>3,148</b>	3,088
Natural gas (MCF per day)	<b>11,912</b>	12,223	7,272	<b>12,067</b>	7,206
Average BOE per day	<b>5,014</b>	5,305	4,236	<b>5,159</b>	4,289

Barrels of oil equivalent (BOE) are calculated using a conversion ratio of 6 MCF to 1 barrel of oil. The conversion is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead and as such may be misleading if used in isolation.

Production volumes for the first half of 2009 were up 20.3 percent over the corresponding 2008 period. Added production related to the Silverwing Energy Inc. (Silverwing) acquisition, Bonterra's Q4 2008 drilling program including the start of production from the Company's first Pembina Cardium horizontal well, new gas wells drilled, and optimization of existing wells. These additions more than offset Bonterra's average corporate production decline of approximately two percent per quarter.

Q209 production was down 291 BOE per day from Q109 due to spring break up as well as planned gas plant scheduled maintenance shutdowns at several of the Company's main gas plants. Also flush production from the Company's first horizontal well and new gas well on the former Silvering property resulted in higher Q109 volumes.

The Company commenced its 2009 drilling program in June with the drilling of the Company's second horizontal well (0.68 net). The well commenced production in August, 2009.

### Revenue

(\$)	Three months ended			Six Months Ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Revenue – oil and gas sales (000's)	<b>20,501</b>	19,300	34,398	<b>39,801</b>	64,891
Average Realized Prices:					
Crude oil and NGLs (per barrel)	<b>59.77</b>	45.80	101.69	<b>52.56</b>	94.31
Natural gas (per MCF)	<b>3.64</b>	5.19	9.61	<b>4.42</b>	8.97

Revenue from petroleum and natural gas sales decreased \$25,090,000 in the first half of 2009 from the corresponding period in 2008 primarily due to a 44 percent drop in crude oil prices and a 51 percent drop in natural gas prices. The drop in commodity prices were partially offset with the above mentioned production increases. Quarter over quarter saw an increase in revenues of \$1,201,000 due to improved crude oil prices.

### Royalties

(\$ 000)	Three months ended			Six Months Ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Crown royalties	<b>674</b>	1,364	4,263	<b>2,038</b>	7,876
Freehold royalties, gross overriding royalties and net carried interests	<b>587</b>	501	1,056	<b>1,088</b>	1,787
Total royalty expense	<b>1,261</b>	1,865	5,319	<b>3,126</b>	9,663
% of total revenue	<b>6.2</b>	9.7	15.5	<b>7.9</b>	14.9

Royalties paid by the Company consist primarily of Crown royalties paid to the Provinces of Alberta, Saskatchewan and British Columbia. Most of the Company's wells are low productivity wells and therefore have low Crown royalty rates. The Company's average Crown royalty rate is approximately 5.2 percent (2008 – 11.2 percent) and approximately 2.7 percent (2008 – 2.5 percent) for other royalties.

The recently announced new Alberta Crown royalty rates vary by prices as well as productivity levels. With recent declines in commodity prices and the Silvering acquisition (mostly BC production with lower Crown royalty rates) the Company has experienced a significant reduction in Crown royalties in the first half of 2009. In addition, the majority of the Company's Crown royalty payments are in respect to natural gas production. With the significant reduction in natural gas prices experienced during the second quarter coupled with its low productivity wells, Crown royalty payments have dropped by \$690,000 quarter over quarter.

The government of the province of Alberta has recently announced drilling incentives and royalty reductions in respect of wells drilled after April 1, 2009 and prior to March 31, 2011. The Company is currently examining its capital requirements (see Liquidity and Capital Resources) and the impact on its crown royalty for newly drilled wells in that period. The Company is planning to maximize the crown royalty credits available under the new drilling incentive program which should result in lower crown royalty payments for the balance of 2009 and 2010.

## Production Costs

(\$ 000)	Three months ended			Six Months Ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Production costs	<b>7,355</b>	7,038	6,089	<b>14,393</b>	12,406
\$ per BOE	<b>16.12</b>	14.74	15.79	<b>15.41</b>	15.89

Total production costs in the first half of 2009 have increased by \$1,987,000 over the first half of 2008. The increase is due to increased production volumes (see Production). On a per BOE basis, production costs have declined in the first half of 2009 compared to the same period in 2008 mainly due to a general decline in service and material costs resulting from decreased industry demand and field optimization.

During the second quarter, the Company incurred costs related to the annual scheduled maintenance shutdowns on several of its Pembina gas plants as well as clean-up costs related to a minor pipeline break at one of the Company's Saskatchewan properties. These costs resulted in a slight increase in total operating costs compared to the first quarter of 2009. The Company continues to anticipate operating costs will remain in the \$14 to \$15 per BOE range for 2009.

The Company's production comes primarily from low productivity wells. These wells generally result in higher production costs on a per unit-of-production basis as costs such as municipal taxes, surface leases, power and personnel costs are not variable with production volumes. The high production costs for the Company are substantially offset by current low royalty rates of approximately 7.9 percent, which is much lower than industry average for conventional production and results in high cash netbacks on a combined basis despite higher than industry average production costs.

## General and Administrative (G&A) Expense

(\$ 000)	Three months ended			Six Months Ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
G&A Expense	<b>1,108</b>	939	855	<b>2,047</b>	1,732
\$ per BOE	<b>2.43</b>	1.97	2.22	<b>2.19</b>	2.22

The increase in G&A expense in the first half of 2009 compared to the first half of 2008 was due to increased accounting contract personnel costs (\$123,000) related to temporary staffing needs; professional service costs (\$168,000) related to IFRS, internal control reviews and various legal and accounting services related to annual filing requirements; computer services fees (\$191,000) related to new monthly geological software licensing fees, service costs related to a new production accounting software, and the contracting of a new IT manager position; bad debt expense (\$53,000) due to the receivership of one of the Company's joint venture partners and numerous accounts with small oil and gas organizations which have become delinquent; bank charges (\$262,000) related to cancelling the old banking facility and setting up the new banking facility, offset partially by reduced employee compensation (\$613,000).

Quarter over quarter saw an increase of \$169,000 related primarily to the write off of costs associated with the establishment of the old banking facility \$132,000 as well as additional professional fees and computer services costs as discussed above.

G&A costs are anticipated to remain at approximately \$1,000,000 per quarter (\$2 per BOE) as costs associated with contract personnel and production accounting will be reduced, but will be offset with additional bank charges related to the new banking facility (approximately \$100,000 per quarter).

### Interest Expense

(\$ 000)	Three months ended			Six Months Ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Interest Expense	915	826	650	1,741	1,449

Interest charges increased in the first half of 2009 as average outstanding debt balance (included related party balances) increased by approximately \$40,000,000 over the first half of 2008. The acquisition of Silverwing as well as the reorganization into a corporation resulted in an approximate additional \$44.5 million of debt. This was partially offset by net proceeds of \$16,985,000 from a 2009 second quarter private equity issue. Offsetting the increased debt balances was an average reduction of one percent (4.5 percent in 2008 to 3.5 percent in 2009) in interest rates paid on the outstanding debt balances.

Effective April 29, 2009, the Company entered into a new bank facility with new terms and conditions. The new facility consists of a \$100,000,000 syndicated revolving credit facility and a \$20,000,000 non-syndicated revolving credit facility.

The interest rate on the new credit facility is calculated as follows:

	Level I	Level II	Level III	Level IV	Level V
Consolidated Total Funded Debt <sup>(1)</sup> to Consolidated Cash flow Ratio	Under 1.0:1	Over 1.0:1 to 1.5:1	Over 1.5:1 to 2.0:1	Over 2.0:1 to 2.5:1	Over 2.5:1
Canadian Prime Rate Plus <sup>(2)</sup>	125	150	175	200	250
Bankers' Acceptances Rate Plus <sup>(2)</sup>	275	300	325	350	400

<sup>(1)</sup> Consolidated total funded debt excludes related party amounts but includes working capital.

<sup>(2)</sup> Numbers in table represent basis points.

Consolidated total funded debt to consolidated cash flow ratio shall be adjusted effective as of the first day of the next fiscal quarter following the end of each fiscal quarter, with each such adjustment to be effective until the next such adjustment.

The above rate schedule combined with current bank prime and interest rates on the related party debt is expected to result in average borrowing costs of approximately three and a half percent for the balance of the fiscal year.

### Stock-Based Compensation

Stock-based compensation is 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. Based on currently outstanding options, the Company anticipates that an expense of approximately \$450,000 will be recorded for the balance of 2009, \$425,000 in 2010 and \$160,000 in 2011.

## Depletion, Depreciation, Accretion and Dry Hole Costs

The Company follows the successful efforts method of accounting for petroleum and natural gas exploration and development costs. Under this method, the costs associated with dry holes are charged to operations. For intangible capital costs that result in the addition of reserves, the Company depletes its oil and natural gas intangible assets using the unit-of-production basis by field.

For tangible assets such as well equipment, a life span of ten years is estimated and the related tangible costs are depreciated at one tenth of original cost per year. The use of a ten year life span instead of calculating depreciation over the life of reserves was determined to be more representative of actual costs of tangible property. Given the Company's long production life, wells generally require replacement of tangible assets more than once during their life time.

Provision for depletion, depreciation and accretion was \$9,523,000 and \$7,010,000, respectively for the six month periods ending June 30, 2009 and June 30, 2008. The increase in the depletion amount was due primarily to increased production volumes and an increase in the average cost of reserves resulting from the Silverwing acquisition. The Company has capital costs of approximately \$6.60 (June 30, 2008 - \$6.10) per proved BOE of reserves based on the December 31, 2008 independent engineering report.

## Taxes

On November 12, 2008, the Company converted from a trust to a corporation. Due to the conversion and the acquisition of Silverwing, the Company increased its usable tax pools to approximately \$468,000,000. As a result of the reorganization, the Company has recorded a future income tax asset and a corresponding deferred tax credit. These amounts will be amortized into future tax expense as the associated tax pools are consumed.

The current tax provision relates to a resource surcharge of \$129,000 payable to the Province of Saskatchewan as well as a capital tax amount of \$269,000 payable to the Province of Quebec. The resource surcharge is calculated as a flat percent of revenues generated from the sale of petroleum products produced in Saskatchewan. The resource surcharge rate is three percent in 2009. The capital tax payable to the Province of Quebec is a one-time charge that resulted from the Company's conversion to a corporation.

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

(\$ 000)	Rate of Utilization (%)	Amount
Undepreciated capital costs	20-100	\$ 21,844
Eligible capital expenditures	7	7,640
Share issue costs	20	4,553
Canadian oil and gas property expenditures	10	25,023
Canadian development expenditures	30	51,595
Canadian exploration expenditures	100	11,255
SR&ED expenditures	100	80,357
Income tax losses carried forward <sup>(1)</sup>	100	252,536
		\$ 454,803

<sup>(1)</sup> Income tax losses carried forward expire in the following years; 2013 - \$1,069,000, 2024 - \$3,229,000, 2025 - \$6,810,000, 2026 - \$79,852,000, 2027 - \$116,680,000, 2028 - \$34,702,000, 2029 - \$10,194,000.

The Company has \$27,670,000 of investment tax credits (ITC) that expire in the following years; 2009 - \$3,469,000, 2010 - \$3,059,000, 2011 - \$4,667,000, 2012 - \$3,909,000, 2013 - \$3,155,000, 2014 - \$1,995,000, 2015 - \$2,257,000, 2016 - \$2,405,000, 2017 - \$2,009,000, 2018 - \$745,000.

The amount and timing of reversals of temporary differences will also depend on the Company's future operating results and its future acquisitions and dispositions of assets and liabilities. A significant change in any of the preceding assumptions could materially affect the Company's estimate of the future income tax asset.

### Net Earnings

(\$ 000)	Three months ended			Six Months Ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Net Earnings	<b>4,544</b>	6,093	12,912	<b>10,637</b>	23,716

Net earnings decreased in the first six months of 2009 by \$13,079,000 from the corresponding 2008 period. Reduced revenues resulting from decreased commodity prices were the main reason for the reduction. This reduction was partially offset by production volume gains. The Company continues to return in excess of 25 percent of its gross realized revenues in net earnings. The Company's low capital costs combined with the Company's low production decline rates should allow for continued positive earnings even in the current lower commodity price environment.

The three months ended June 30, 2009 saw a decline of \$1,549,000 in net earnings from the first three months of 2009. The decrease was primarily due to reduced future income tax recovery. Income before taxes was higher quarter over quarter by \$853,000 due primarily to increased crude oil prices.

### Comprehensive Income

Other comprehensive income for 2009 consists of an unrealized gain on investment in a related party of \$818,000 (2008 – (\$164,000)) due to an increase in the related company's fair value.

### Cash Flow from Operations

(\$ 000)	Three months ended			Six Months Ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Cash flow from operations	<b>9,238</b>	6,632	20,530	<b>15,870</b>	36,742

First half 2009 cash flow from operations decreased 57 percent compared to first half 2008 due to decreased commodity prices received during the first six months of 2009. Q2 cash flow increased by \$2,606,000 from Q1 due primarily to recovering crude oil pricing.

With the continuing depressed crude oil and natural gas prices, cash flow for the remainder of 2009 is expected to be significantly negatively affected compared to 2008 figures. The price declines should be partially offset by increases in production volumes of approximately 20 percent in 2009 over 2008 levels and a reduction in royalties.

## Cash Netback

The following table illustrates the Company's cash netback from operations for the six month periods ended June 30:

\$ per Barrel of Oil Equivalent (BOE)	2009	2008
Production volumes (BOE)	933,781	780,644
Gross production revenue	\$ 42.62	\$ 90.02
Realized gain (loss) on risk management contracts	-	(6.90)
Royalties	(3.35)	(12.38)
Field operating costs	(15.41)	(15.89)
Field netback	23.86	54.85
General and administrative	(2.19)	(2.22)
Interest and taxes	(2.29)	(2.18)
Cash netback	\$ 19.38	\$ 50.45

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

\$ per Barrel of Oil Equivalent (BOE)	June 30, 2009	March 31, 2009
Production volumes (BOE)	456,286	477,495
Gross production revenue	\$ 44.93	\$ 40.42
Royalties	(2.76)	(3.91)
Field operating costs	(16.12)	(14.74)
Field netback	26.05	21.77
General and administrative	(2.43)	(1.97)
Interest and taxes	(2.17)	(2.40)
Cash netback	\$ 21.45	\$ 17.40

## Related Party Transactions

The Company owns 689,682 (December 31, 2008 – 689,682) common shares in Comaplex Minerals Corp. ("Comaplex") which have a fair market value as of June 30, 2009 of \$3,083,000 (December 31, 2008 - \$2,131,000). Comaplex is a publicly traded mineral company on the Toronto Stock Exchange. The Company's ownership in Comaplex represents approximately 1.3 percent of the issued and outstanding common shares of Comaplex. The Company has common directors and management with Comaplex.

Comaplex paid a management fee to the Company of \$165,000 (2008 - \$165,000). Comaplex also shares office rental costs and reimburses the Company for costs related to employee benefits and office materials. In addition, Comaplex owns 204,633 (December 31, 2008 – 204,633) common shares in the Company. Services provided by the Company include executive services (chief executive officer, president and vice president, finance duties), accounting services, oil and gas administration and office administration. All services performed are charged at estimated fair value. At June 30, 2009, Comaplex owed the Company \$75,000 (December 31, 2008 - \$56,000).

As of June 30, 2009, Comaplex has loaned the Company \$12,000,000 (December 31, 2008 - Nil). The loan is unsecured, bears interest at Canadian chartered bank prime plus one quarter of a percent and has no set repayment terms. Effective July 1, 2009, the interest rate was reduced to Canadian chartered bank prime less .25 percent. The reduction in rate was due to the lowering of the Company's bank interest rate caused by the improving debt to cash flow ratio (see Interest Expense and Liquidity and Capital Resources sections).

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 during the first six months of 2009 was \$79,000. This results in being a substantial benefit to Bonterra and to Comaplex. The interest paid to Comaplex by Bonterra is substantially lower than bank interest and for Comaplex the interest earned is substantially higher than Comaplex would receive by investing in bank instruments such as BA's or GIC's.

The Company also has a management agreement with Pine Cliff Energy Ltd. (Pine Cliff). Pine Cliff has common directors and management with the Company. Pine Cliff trades on the TSX Venture Exchange. Pine Cliff paid a management fee to the Company of \$60,000 (2008 - \$118,800). Services provided by the Company include executive services (CEO, president and vice president, finance duties), accounting services, oil and gas administration and office administration. All services performed are charged at estimated fair value. The Company has no share ownership in Pine Cliff. As at June 30, 2009, the Company had an account receivable from Pine Cliff of \$1,000 (December 31, 2008 – \$1,000).

As of June 30, 2009, the Company's CEO and major shareholder has loaned the Company \$10,000,000 (December 31, 2008 - \$6,000,000). The loan is unsecured, bears interest at Canadian chartered bank prime and has no set repayment terms. Effective July 1, 2009 the interest rate was decreased to Canadian chartered bank prime less .25 percent. 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 during the first six months of 2009 was \$101,000. This loan results in being a substantial benefit to Bonterra and to the CEO. The interest paid to the CEO by Bonterra is substantially lower than bank interest and for the CEO the interest earned is substantially higher than the CEO would receive by investing in bank instruments such as BA's or GIC's.

### **Liquidity and Capital Resources**

During the first six months of 2009, the Company incurred capital costs of \$4,956,000 (2008 - \$8,964,000). In the second quarter of 2009, the Company drilled one horizontal well (0.68 net) and acquired approximately \$600,000 of land rights in the Pembina area of Alberta. During the first half of 2009, Bonterra also participated in a number of smaller interest natural gas wells for total costs of approximately \$1,000,000 and spent approximately \$1,300,000 on completion and tie in costs in respect to wells drilled in Q4 2008. The balance of the capital expenditures related to various capital projects ranging from pipeline tie-ins to maximizing natural gas production to various battery upgrades to enhance overall production from existing wells.

On July 2, 2009, Bonterra completed its acquisition of Cobalt Energy Ltd. (Cobalt). The Company issued 201,738 common shares and assumed \$2,818,000 of negative working capital. Total costs to complete the acquisition were approximately \$170,000. This acquisition resulted in acquiring an additional 40 BOE per day of production as well as increasing the Company's land position in approximately 11 sections of land with potential horizontal locations in the Pembina area of Alberta.

The Company currently has plans to spend an estimated \$20,000,000 in 2009 (approximately \$16,000,000 in the third and fourth quarters) on development of its oil and gas properties. Land acquisitions and property or corporate acquisitions estimated to be \$10,000,000 (including the Cobalt acquisition) will bring the total to approximately \$30,000,000. With the recent Crown royalty credit announcement by the Alberta government, the Company plans on drilling additional horizontal Pembina Cardium oil wells as well as vertical Pembina Cardium wells. The exact number of each will depend on drilling success and commodity prices. The 2009 drilling program commenced in the second quarter with the majority of the drilling expenditures expected to be incurred during the third and fourth quarters.

Bonterra anticipates funding the 2009 capital program out of cash flow and the Company's line of credit. Effective April 29, 2009, the Company entered into a new bank facility. The new facility consists of a

\$100,000,000 syndicated revolving credit facility and a \$20,000,000 non-syndicated revolving credit facility. At June 30, 2009, the Company's bank loan was \$71,573,000 (December 31, 2008 - \$93,235,000). The terms of the new facility provides that the loan is revolving until April 28, 2011, is subject to annual review and has no fixed payment requirements.

The following is a list of the material covenants:

- 1) The Company is required to not exceed \$120,000,000 in consolidated debt (includes negative working capital but excludes debt to related parties). As of June 30, 2009 the Company had consolidated debt of \$63,562,000.
- 2) Dividends paid in any quarter shall not exceed 80 percent of the average of the previous four quarters' cash flow as defined under GAAP. During the quarter Bonterra paid \$6,708,000 in dividends. This compares to \$11,998,000 that was allowed under the bank covenant.

During the second quarter, Bonterra issued 1,068,000 common shares at a price of \$16.85 per share for net proceeds of \$16,985,000. The funds from the equity placement were used to retire debt and for general working capital.

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

Issued	Number	Amount (\$ 000)
Common Shares		
Balance, January 1, 2009	17,257,603	99,530
Issued pursuant to private placement	1,068,000	17,996
Issue costs for private placement	-	(1,011)
Future tax effect of share issue costs	-	258
Balance, June 30, 2009	18,325,603	116,773

The Company provides an option plan for its directors, officers, employees and consultants. Under the plan, the Company may grant options for up to 1,832,560 (December 31, 2008 – 1,725,760) common shares. The exercise price of each option granted equals 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 June 30, 2009 and December 31, 2008, and changes during the six month and twelve month periods ended on those dates is presented below:

	June 30, 2009		December 31, 2008	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of period	1,390,500	\$ 20.50	-	\$ -
Options granted	33,000	14.90	1,390,500	20.50
Outstanding at end of period	1,423,500	\$ 20.37	1,390,500	\$ 20.50
Options exercisable at end of period	-	\$ -	-	\$ -

The following table summarizes information about options outstanding at June 30, 2009:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding At 6/30/09	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 6/30/09	Weighted-Average Exercise Price
\$14.90	33,000	3.6 years	\$14.90	-	\$ -
20.50	1,390,500	3.3 years	20.50	-	-
\$14.90-20.50	1,423,500	3.3 years	\$20.37	-	\$ -

### 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 and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by the interim filings 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 Chief Executive Officer and Chief Financial Officer 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 has conducted a review of its ICFR, with the conclusion that as of June 30, 2009 the Company's system of ICFR as defined under NI 52-109 is adequately designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. In addition, the Company has concluded that there exists sufficient mitigating controls that the below mentioned weaknesses have resulted in no material impact on the Company's financial reporting or ICFR.

The control framework the Company used to design its ICFR was the model developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In its review, the Company identified certain material weaknesses in internal controls over financial reporting:

1. due to the limited number of staff at the Company, it is not feasible to achieve the complete segregation of incompatible duties; and
2. due to the limited number of staff, the Company relies upon third parties as participants in the Company's internal controls over financial reporting.

The Company believes these weaknesses are adequately mitigated by: the active involvement of senior management and the board of directors in the affairs of the Company; open lines of communication within the Company; the present levels of activities and transactions within the Company being readily transparent; the thorough review of the Company's financial statements by management, the board of directors and by the Company's auditors (annual statements only); and the establishment of a whistle-blower policy. However, these mitigating factors will not necessarily prevent a material misstatement occurring as a result of the aforesaid weaknesses in the Company's internal controls over financial reporting. Based on the above identified weaknesses, the Company has concluded that the Company's ICFR are ineffective. A system of internal controls over financial reporting, no matter how well conceived or operated, can provide only

reasonable, not absolute, assurance that the objectives of the internal controls over financial reporting are met. The Company has no plans for remediating the above weaknesses.

### **Financial Reporting Update**

In January 2009, the CICA issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. This standard is effective for the Company's fiscal periods ending on or after January 20, 2009 with retrospective application. The application of this EIC did not have a material effect on the Company's Consolidated Financial Statements.

In December 2008, the CICA issued Section 1582, "Business Combinations", which will replace former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 with earlier adoption permitted. The Company is currently evaluating the impact of this change on its Consolidated Financial Statements.

In December 2008, the CICA issued Sections 1601, "Consolidated Financial Statements", and 1602, "Non-controlling Interests", which replaces existing Section 1600. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier adoption permitted. These standards currently do not impact the Company as it has full controlling interest of all of its subsidiaries.

### **Recent Accounting Pronouncements**

The Accounting Standards Board has confirmed the convergence of Canadian GAAP with International Financial Reporting Standards (IFRS) will be effective January 1, 2011.

The Company in the fourth quarter of 2008 commenced the process of conversion to IFRS by engaging its external auditors to perform a preliminary high-level scoping study to consider the potential impact of the implementation of IFRS on the Company. Based on the findings to date, the following areas have been identified as high impact areas:

- IFRS 1 – First time adoption of IFRS
- IFRS 3 – Business combinations
- IAS 16 – Property and equipment
- IAS 36 – Impairment of assets

medium impact areas include:

- IFRS 6 – Exploration and evaluation of mineral resources
- IFRS 2 – Share-based payments
- IAS 1 – Presentation of financial statements
- IAS 10 – Events after the balance sheet date
- IAS 12 – Income Taxes
- IAS 18 – Revenues
- IAS 23 – Borrowing costs
- IAS 39 – Financial instruments, recognition and measurement

- IAS 37 – Provisions, contingent liabilities and contingent assets

The impact of IFRS will be significant; however the Company has always maintained an accounting policy of successful efforts for property and equipment that will result in a major reduction in the level of conversion compared to most oil and gas companies who used the full cost accounting policy.

Due to time restrictions caused by the Cobalt acquisition, the Company delayed its second phase of its IFRS project to the third quarter of 2009. The Company will be completing a more detailed analysis of the above areas and making decisions in respect of accounting policies that will be followed in respect of the above identified areas, documenting those policies, and calculating the impact of those policies on existing financial statement items and presentations. Key information will be disclosed as it becomes available during the transition period.

In June 2009, the CICA issued amendments to CICA Handbook Section 3862, “Financial Instruments – Disclosures”. The amendments include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. The amendments will be effective for annual financial statements for fiscal years ending after September 30, 2009. The amendments are consistent with recent amendments to financial instrument disclosure standards in IFRS. The Company will include these additional disclosures in its annual consolidated financial statements for the year ending December 31, 2009.

Additional information relating to the Company may be found on [www.sedar.com](http://www.sedar.com) or visit our website at [www.bonterraenergy.com](http://www.bonterraenergy.com).

Submitted on behalf of the Board of Directors,



George F. Fink  
President, CEO and Director

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

The information provided in this report, including the financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgements 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 Company's auditors have not performed a review of these interim financial statements. The audit committee has reviewed these financial statements with management and has reported to the Board of Directors. The Board of Directors has approved the financial statements as presented in this interim report.

## CONSOLIDATED BALANCE SHEETS

<b>As at June 30, 2009 and December 31, 2008</b>		
(unaudited)		
(\$ 000)	2009	2008
<b>Assets</b>		
<b>Current</b>		
Restricted term deposit	-	20
Accounts receivable (Note 11)	10,553	11,753
Crude oil inventory	538	845
Prepaid expenses	4,468	4,222
Future income tax asset (Note 8)	8,591	2,669
Investments in related party (Note 3)	3,083	2,131
	<b>27,233</b>	21,640
Restricted cash (Note 4)	1,257	1,252
Future income tax asset (Note 8)	77,021	85,416
<b>Property and Equipment (Note 5)</b>		
Petroleum and natural gas properties and related equipment	237,585	232,685
Accumulated depletion and depreciation	(84,703)	(75,692)
<b>Net Property and Equipment</b>	<b>152,882</b>	156,993
	<b>258,393</b>	265,301
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	11,827	23,888
Due to related parties (Note 6)	22,000	6,000
Deferred credit (Note 8)	7,395	2,305
Short-term debt (Note 7)	-	13,325
	<b>41,222</b>	45,518
Long-term bank debt (Note 7)	71,573	79,910
Deferred credit (Note 8)	54,598	64,758
Asset retirement obligations	18,668	18,338
	<b>186,061</b>	208,524
<b>Shareholders' Equity (Note 9)</b>		
Share capital	116,773	99,530
Contributed surplus	3,010	2,542
	<b>119,783</b>	102,072
Deficit	(49,689)	(46,715)
Accumulated other comprehensive income (Note 10)	2,238	1,420
	<b>(47,451)</b>	(45,295)
<b>Total Shareholders' Equity</b>	<b>72,332</b>	56,777
	<b>258,393</b>	265,301

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the periods ended June 30 (unaudited) (\$ 000)	Three Months		Six Months	
	2009	2008	2009	2008
Unitholders' equity, beginning of period (Note 1)	-	48,136	-	44,218
Shareholders' equity, beginning of period (Note 1)	<b>56,377</b>	-	<b>56,777</b>	-
Comprehensive income for the period	<b>5,181</b>	12,577	<b>11,455</b>	23,552
Net capital contributions	<b>17,243</b>	4,210	<b>17,243</b>	4,490
Stock-based compensation	<b>239</b>	279	<b>468</b>	562
Dividends declared	<b>(6,708)</b>	-	<b>(13,611)</b>	-
Distributions declared	-	(18,590)	-	(26,210)
<b>Unitholders' Equity, End of Period</b>	-	46,612	-	46,612
<b>Shareholders' Equity, End of Period</b>	<b>72,332</b>	-	<b>72,332</b>	-

## CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

For the periods ended June 30 (unaudited) (\$000, except \$ per Share)	Three Months		Six Months	
	2009	2008	2009	2008
<b>Revenue</b>				
Oil and gas sales	<b>20,501</b>	38,412	<b>39,801</b>	70,272
Loss on risk management contracts - cash	-	(4,014)	-	(5,381)
Loss on risk management contracts - non-cash	-	(4,636)	-	(7,025)
Royalties	<b>(1,261)</b>	(5,319)	<b>(3,126)</b>	(9,663)
Interest and other	<b>(6)</b>	9	<b>60</b>	22
	<b>19,234</b>	24,452	<b>36,735</b>	48,225
<b>Expenses</b>				
Production costs	<b>7,355</b>	6,089	<b>14,393</b>	12,406
General and administrative	<b>1,108</b>	855	<b>2,047</b>	1,732
Interest on debt	<b>915</b>	650	<b>1,741</b>	1,449
Stock-based compensation	<b>239</b>	279	<b>468</b>	562
Depletion, depreciation and accretion	<b>4,909</b>	3,516	<b>9,523</b>	7,010
	<b>14,526</b>	11,389	<b>28,172</b>	23,159
<b>Earnings Before Taxes</b>	<b>4,708</b>	13,063	<b>8,563</b>	25,066
<b>Taxes (Recovery)</b>				
Current	<b>76</b>	142	<b>398</b>	253
Future	<b>88</b>	9	<b>(2,472)</b>	1,097
	<b>164</b>	151	<b>(2,074)</b>	1,350
<b>Net Earnings for the Period</b>	<b>4,544</b>	12,912	<b>10,637</b>	23,716
Deficit, beginning of period	<b>(47,525)</b>	(48,359)	<b>(46,715)</b>	(51,543)
Dividends declared	<b>(6,708)</b>	-	<b>(13,611)</b>	-
Distributions declared	-	(13,116)	-	(20,736)
<b>Deficit, End of Period</b>	<b>(49,689)</b>	(48,563)	<b>(49,689)</b>	(48,563)
<b>Net Earnings Per Share – Basic (Note 9)</b>	<b>0.26</b>	0.76	<b>0.61</b>	1.40
<b>Net Earnings Per Share – Diluted (Note 9)</b>	<b>0.26</b>	0.75	<b>0.61</b>	1.39

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<b>For the Periods Ended June 30 (unaudited)</b> (\$ 000, except \$ per Share)	Three Months		Six Months	
	<b>2009</b>	2008	<b>2009</b>	2008
<b>Net Earnings for the Period</b>	<b>4,544</b>	12,912	<b>10,637</b>	23,716
Unrealized gains and losses on investments (net of Income taxes; Three months ended 2009 - 108, 2008 - (112); Six months ended 2009 - 134, 2008 - (55))	<b>637</b>	(355)	<b>818</b>	(164)
<b>Other Comprehensive Income (Loss)</b>	<b>637</b>	(355)	<b>818</b>	(164)
<b>Comprehensive Income</b>	<b>5,181</b>	12,577	<b>11,455</b>	23,552
<b>Comprehensive Income Per Share – Basic (Note 9)</b>	<b>0.29</b>	0.74	<b>0.66</b>	1.39
<b>Comprehensive Income Per Share – Diluted (Note 9)</b>	<b>0.29</b>	0.73	<b>0.66</b>	1.38

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the periods ended June 30 (unaudited) (\$000)	Three Months		Six Months	
	2009	2008	2009	2008
<b>Operating Activities</b>				
Net earnings for the period	4,544	12,912	10,637	23,716
Items not affecting cash				
Loss on risk management contracts - non-cash	-	4,636	-	7,025
Stock-based compensation	239	279	468	562
Depletion, depreciation and accretion	4,909	3,516	9,523	7,010
Future income taxes	88	9	(2,472)	1,097
	<b>9,780</b>	<b>21,352</b>	<b>18,156</b>	<b>39,410</b>
Change in non-cash working capital				
Accounts receivable	104	(1,636)	1,200	(4,837)
Crude oil inventory	(17)	(55)	299	87
Prepaid expenses	(814)	(1,116)	(246)	(1,047)
Accounts payable and accrued liabilities	243	2,171	(3,410)	5,042
Asset retirement obligations settled	(58)	(186)	(129)	(1,913)
	<b>(542)</b>	<b>(822)</b>	<b>(2,286)</b>	<b>(2,668)</b>
<b>Cash Provided by Operating Activities</b>	<b>9,238</b>	<b>20,530</b>	<b>15,870</b>	<b>36,742</b>
<b>Financing Activities</b>				
Increase (decrease) in debt	(17,810)	(5,933)	(21,662)	(4,442)
Due to related parties	-	-	16,000	-
Issue of shares pursuant to private placement	17,996	-	17,996	-
Share issue costs	(1,011)	-	(1,011)	-
Stock option proceeds	-	4,210	-	4,490
Dividends	(6,708)	-	(13,611)	-
Unit distributions	-	(13,116)	-	(24,460)
<b>Cash Used in Financing Activities</b>	<b>(7,533)</b>	<b>(14,839)</b>	<b>(2,288)</b>	<b>(24,412)</b>
<b>Investing Activities</b>				
Property and equipment expenditures	(2,255)	(2,543)	(4,956)	(8,964)
Restricted term deposit	-	-	20	-
Restricted cash	-	-	5	-
Change in non-cash working capital				
Accounts payable and accrued liabilities	550	(3,148)	(8,651)	(3,366)
<b>Cash Used in Investing Activities</b>	<b>(1,705)</b>	<b>(5,691)</b>	<b>(13,582)</b>	<b>(12,330)</b>
<b>Net Cash Inflow</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Cash, beginning of period	-	-	-	-
<b>Cash, End of Period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Cash Interest Paid</b>	<b>861</b>	<b>650</b>	<b>1,687</b>	<b>1,449</b>
<b>Cash Taxes Paid</b>	<b>31</b>	<b>90</b>	<b>192</b>	<b>368</b>

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Periods Ended June 30, 2009 and 2008 (unaudited)

### 1. CHANGE OF ORGANIZATION

On November 12, 2008, Bonterra Energy Income Trust (the "Trust") converted to Bonterra Oil & Gas Ltd. (the "Company" or the "Trust") through a reverse takeover by the Trust of SRX Post Holdings Inc. (SRX). In conjunction with the reorganization, the Trust acquired all of the issued and outstanding shares of Silverwing Energy Inc. (Silverwing). Concurrently, all of the Company's subsidiaries, including Silverwing were amalgamated into Bonterra Energy Corp., a wholly owned subsidiary of the Company.

Prior to the Arrangement on November 12, 2008, the consolidated financial statements included the accounts of the Trust and its subsidiaries. After giving effect to the Arrangement, the consolidated financial statements have been prepared on a continuity of interests basis, which recognizes Bonterra Oil & Gas Ltd. as the successor entity to the Trust. The continuity of interest basis requires that the 2008 comparative consolidated financial statement figures presented prior to the reorganization are those previously presented by the Trust.

### 2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and methods of application followed in the preparation of the interim consolidated financial statements are the same as those followed in the preparation of Bonterra's 2008 annual consolidated financial statements except as described below. These interim consolidated financial statements do not include all disclosures required for annual consolidated financial statements. The interim consolidated financial statements as presented should be read in conjunction with the 2008 annual consolidated financial statements.

In February 2008, the Canadian Institute of Chartered Accountants (CICA) issued Section 3064, "Goodwill and intangible assets", replacing Section 3062, "Goodwill and other intangible assets" and Section 3450, "Research and development costs". Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section is applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company adopted the new standards for its fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-orientated enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The adoption of this Standard did not have an impact on the Consolidated Financial Statements.

In January 2009, the CICA issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. This standard is effective for the Company's fiscal periods ending on or after January 20, 2009 with retrospective application. The application of this EIC did not have a material effect on the Company's Consolidated Financial Statements.

In December 2008, the CICA issued Section 1582, "Business Combinations", which will replace former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period

beginning on or after January 1, 2011 with earlier adoption permitted. The Company is currently evaluating the impact of this change on its Consolidated Financial Statements.

In December 2008, the CICA issued Sections 1601, "Consolidated Financial Statements", and 1602, "Non-controlling Interests", which replaces existing Section 1600. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier adoption permitted. These standards currently do not impact the Company as it has full controlling interest of all of its subsidiaries.

### **Recent Accounting Pronouncements**

The Accounting Standards Board has confirmed that the convergence of Canadian GAAP with International Financial Reporting Standards (IFRS) will be effective January 1, 2011. The Company has performed an initial scoping process in order to ensure successful implementation within the required timeframe. The impact on the Company's consolidated financial statements is not reasonably determinable at this time. Key information will be disclosed as it becomes available during the transition period.

In June 2009, the CICA issued amendments to CICA Handbook Section 3862, "Financial Instruments – Disclosures". The amendments include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. The amendments will be effective for annual financial statements for fiscal years ending after September 30, 2009. The amendments are consistent with recent amendments to financial instrument disclosure standards in IFRS. The Company will include these additional disclosures in its annual consolidated financial statements for the year ending December 31, 2009.

### **3. INVESTMENT IN RELATED PARTY**

The investment consists of 689,682 (December 31, 2008 – 689,682) common shares in Comaplex Minerals Corp. (Comaplex), a company with common directors and management with the Company and its subsidiaries. The investment is recorded at fair market value. The common shares trade on the Toronto Stock Exchange under the symbol CMF. The investment represents less than one and a half percent ownership in the outstanding shares of Comaplex.

### **4. RESTRICTED CASH**

An escrow account was held by Silverwing prior to its acquisition by the Company. The escrow account was created to support eligible expenditures related to a farm-in agreement. The Company may access the funds upon completion and tie-in or abandonment and reclamation of 22 wells. The funds are administered by the farmers' legal counsel. The funds in the escrow account are invested in interest bearing term deposits.

## 5. PROPERTY AND EQUIPMENT

(\$ 000)	June 30, 2009		December 31, 2008	
	Cost	Accumulated Depletion and Depreciation	Cost	Accumulated Depletion and Depreciation
Undeveloped land	2,580	-	2,295	-
Petroleum and natural gas properties and related equipment	233,574	83,768	229,136	74,844
Furniture, equipment and other	1,431	935	1,254	848
	<b>237,585</b>	<b>84,703</b>	232,685	75,692

## 6. DUE TO RELATED PARTIES

As of June 30, 2009, the Company's CEO and major shareholder has loaned the Company \$10,000,000 (December 31, 2008 - \$6,000,000). The loan is unsecured, bears interest at Canadian chartered bank prime and has no set repayment terms but is payable on demand. However, the loan can only be repaid should the Company have sufficient available borrowing limits under the Company's credit facility. Effective July 1, 2009 the interest rate was decreased to Canadian chartered bank prime less .25 percent. The interest rate was decreased to keep the loan rate at approximately two percent below the Company's bank financing rate. Interest paid on this loan during the first half of 2009 was \$101,000.

As of June 30, 2009, Comaplex has loaned the Company \$12,000,000 (December 31, 2008 - Nil). The loan is unsecured, bears interest at Canadian chartered bank prime plus one quarter of a percent and has no set repayment terms but is payable on demand. Effective July 1, 2009 the interest rate was decreased to Canadian chartered bank prime less .25 percent. The interest rate was decreased to keep the loan rate at approximately two percent below the Company's bank financing rate. 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 during the first half of 2009 was \$79,000.

Please refer to note 11 for additional related party transactions.

## 7. BANK DEBT

As of June 30, 2009, the Company has a bank facility consisting of a \$100,000,000 syndicated and \$20,000,000 non-syndicated revolving credit facility (December 31, 2008 - \$80,000,000 syndicated and \$20,000,000 non-syndicated demand credit facility). This new facility became effective April 29, 2009, when the Company agreed to new terms and conditions. Amounts drawn under the facility at June 30, 2009 was \$71,573,000 (December 31, 2008 - \$93,235,000). The interest rate on the outstanding debt as of June 30, 2009 was 4.25 percent on the Company's Canadian prime rate loan. The term of the new facility provides that the loan is revolving until April 28, 2011, is subject to annual review and has no fixed payment requirements.

The amount available for borrowing under the credit facilities is reduced by outstanding letters of credit. Letters of credit totaling \$285,000 were issued at June 30, 2009 (December 31, 2008 - \$525,000). Security for the credit facilities consists of various fixed and floating demand debentures totaling \$200,000,000 over all of the Company's assets, and a general security agreement with first ranking over all personal and real property.

The interest rate on the new credit facility is calculated as follows:

	Level I	Level II	Level III	Level IV	Level V
Consolidated Total Funded Debt <sup>(1)</sup> to Consolidated Cash flow Ratio	Under 1.0:1	Over 1.0:1 to 1.5:1	Over 1.5:1 to 2.0:1	Over 2.0:1 to 2.5:1	Over 2.5:1
Canadian Prime Rate Plus <sup>(2)</sup>	125	150	175	200	250
Bankers' Acceptances Rate Plus <sup>(2)</sup>	275	300	325	350	400

<sup>(1)</sup> Consolidated total funded debt excludes related party amounts but includes working capital.

<sup>(2)</sup> Numbers in table represent basis points.

The consolidated total funded debt to consolidated cash flow ratio shall be adjusted effective as of the first day of the next fiscal quarter following the end of each fiscal quarter, with each such adjustment to be effective until the next such adjustment.

The following is a list of the material covenants:

- The Company is required to not exceed \$120,000,000 in consolidated debt (includes negative working capital but excludes debt to related parties).
- Dividends paid in any quarter shall not exceed 80 percent of the average of the previous four quarters' cash flow as defined under GAAP.

## 8. TAXES

The Company has recorded a future income tax asset related to assets and liabilities and related tax amounts:

(\$ 000)	June 30 2009	December 31 2008
Future tax liability related to investments:	<b>(331)</b>	(212)
Future tax liability related to property and equipment:	<b>(6,334)</b>	(7,097)
Future tax asset related to asset retirement obligations:	<b>4,697</b>	4,593
Futures tax asset related to finance costs:	<b>1,143</b>	1,134
Future tax asset related to corporate tax losses and SR&ED claims:	<b>77,846</b>	86,998
Future Tax Asset – Long-term	<b>77,021</b>	85,416
Current portion of future income tax asset related to corporate Tax losses and SR& ED claims:	<b>8,591</b>	2,669
Future Tax Asset - Current	<b>8,591</b>	2,669

As a result of the reorganization, the Company recorded a deferred credit relating to the difference between the future income tax asset generated on the reorganization and the amount of the cash payment made to SRX immediately before the reorganization. This credit is being amortized on the same basis as the related future income tax asset.

A reconciliation of the deferred credit is as follows:

(\$ 000)	
Amount recorded on reorganization	71,303
Amortized in 2008	(4,240)
Balance as of December 31, 2008	67,063
Amortized in first half of 2009	(5,070)
Balance as of June 30, 2009	61,993
Current portion	7,395
Long-term portion	54,598
	61,993

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

(\$ 000)	Rate of Utilization (%)	Amount
Undepreciated capital costs	20-100	21,844
Eligible capital expenditures	7	7,640
Share issue costs	20	4,553
Canadian oil and gas property expenditures	10	25,023
Canadian development expenditures	30	51,595
Canadian exploration expenditures	100	11,255
SR&ED expenditures	100	80,357
Income tax losses carried forward <sup>(1)</sup>	100	252,536
		454,803

<sup>(1)</sup> Income tax losses carried forward expire in the following years; 2013 - \$1,069,000, 2024 - \$3,229,000, 2025 - \$6,810,000, 2026 - \$79,852,000, 2027 - \$116,680,000, 2028 - \$34,702,000, 2029 - \$10,194,000.

The Company has \$27,670,000 of investment tax credits (ITC) that expire in the following years; 2009 - \$3,469,000, 2010 - \$3,059,000, 2011 - \$4,667,000, 2012 - \$3,909,000, 2013 - \$3,155,000, 2014 - \$1,995,000, 2015 - \$2,257,000, 2016 - \$2,405,000, 2017 - \$2,009,000, 2018 - \$745,000.

The amount and timing of reversals of temporary differences will also depend on the Company's future operating results, and acquisitions and dispositions of assets and liabilities. A significant change in any of the preceding assumptions could materially affect the Company's estimate of the future income tax asset.

## 9. SHAREHOLDERS' EQUITY

Authorized

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

Issued	Number	Amount (\$ 000)
Common Shares		
Balance, January 1, 2009	17,257,603	99,530
Issued pursuant to private placement	1,068,000	17,996
Issue costs for private placement	-	(1,011)
Future tax effect of share issue costs	-	258
Balance, June 30, 2009	18,325,603	116,773

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.

On May 27, 2009, the Company completed a private placement for 1,068,000 common shares at a price of \$16.85 per common share for aggregate proceeds of \$17,996,000. The Company paid a commission of five percent of the gross proceeds (\$900,000) plus additional share issue costs of \$111,000.

The number of common shares (2008 numbers based on units) used to calculate diluted net earnings per share (2008 earnings per unit) for the three and six month periods ended June 30 is as follows:

	Three Months		Six Months	
	2009	2008	2009	2008
Basic shares/units outstanding	<b>17,668,372</b>	17,025,803	<b>17,464,122</b>	16,982,068
Dilutive effect of share/unit options	<b>28,735</b>	185,533	<b>14,447</b>	102,363
Diluted shares/units outstanding	<b>17,697,107</b>	17,211,336	<b>17,478,569</b>	17,084,431

A summary of the changes during the first six months of the Company's contributed surplus is presented below:

Contributed surplus (\$ 000)	2009	2008
Balance, beginning of period	<b>2,542</b>	2,140
Stock-based compensation expensed (non-cash)	<b>468</b>	562
Stock-based options exercised (non-cash)	-	(448)
Balance, end of period	<b>3,010</b>	2,254

The deficit balance is composed of the following items:

(\$ 000)	June 30, 2009	June 30, 2008
Accumulated earnings	<b>218,819</b>	176,472
Accumulated cash dividends/distributions	<b>(268,508)</b>	(230,509)
Deficit	<b>(49,689)</b>	(54,037)

The Company provides an option plan for its directors, officers, employees and consultants. Under the plan, the Company may grant options for up to 1,832,560 (December 31, 2008 – 1,725,760) common shares. The exercise price of each option granted equals 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 June 30, 2009 and December 31, 2008, and changes during the six month and twelve month periods ended on those dates is presented below:

	June 30, 2009		December 31, 2008	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of period	<b>1,390,500</b>	<b>\$ 20.50</b>	-	\$ -
Options granted	<b>33,000</b>	<b>14.90</b>	1,390,500	20.50
Outstanding at end of period	<b>1,423,500</b>	<b>\$ 20.37</b>	1,390,500	\$ 20.50
Options exercisable at end of period	-	\$ -	-	\$ -

The following table summarizes information about options outstanding at June 30, 2009:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding At 6/30/09	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 6/30/09	Weighted-Average Exercise Price
\$14.90	33,000	3.6 years	\$14.90	-	\$ -
20.50	1,390,500	3.3 years	20.50	-	-
\$14.90-20.50	1,423,500	3.3 years	\$20.37	-	\$ -

The Company records compensation expense over the vesting period based on the fair value of options granted to employees, directors and consultants. The Company granted 33,000 stock options with an estimated fair value of \$52,000 (\$1.56 per option) using the Black-Scholes option pricing model with the following key assumptions:

	2009	2008
Weighted-average risk free interest rate (%)	1.4	2.2
Expected life (years)	3.0	3.5
Weighted-average volatility (%)	33.0	31.3
Dividend yield 2009 and 2008	based on the percentage of dividends or distributions paid during the period granted	

#### 10. ACCUMULATED OTHER COMPREHENSIVE INCOME

(\$ 000)	January 1, 2009	Other Comprehensive Income	June 30, 2009
Unrealized gains on available-for-sale financial assets (net of tax)	1,420	818	2,238

(\$ 000)	January 1, 2008	Other Comprehensive Income (Loss)	December 31, 2008
Unrealized gains (losses) on available-for-sale financial assets (net of tax)	3,031	(1,611)	1,420

#### 11. RELATED PARTY TRANSACTIONS

The Company received a management fee from Comaplex of \$165,000 (2008 - \$165,000) for management services and office administration. This fee has been included as a recovery in general and administrative expenses. As at June 30, 2009, the Company had an account receivable from Comaplex of \$75,000 (December 31, 2008 - \$56,000).

The Company received a management fee from Pine Cliff Energy Ltd. (Pine Cliff) of \$60,000 (2008 - \$118,800) for management services and office administration. This fee has been included as a recovery in general and administrative expenses. As at June 30, 2009 the Company had an account receivable from Pine Cliff of \$1,000 (December 31, 2008 - \$1,000).

## **12. FINANCIAL AND CAPITAL RISK MANAGEMENT**

### Financial Risk Factors

The Company undertakes transactions in a range of financial instruments including:

- Receivables
- Payables
- Common share investments
- Due to related parties
- Bank loans
- Derivatives

The Company's activities result in exposure to a number of financial risks including market risk (commodity price risk, interest rate risk, foreign exchange risk, credit risk, and liquidity risk).

The Company's overall risk management program seeks to mitigate these risks and reduce the volatility on the Company's financial performance. Financial risk management is carried out by senior management under the direction of the Directors of the Company.

The Company enters into various risk management contracts in accordance with Board approval to manage the Company's exposure to commodity price fluctuations. Currently no risk management agreements are in place. The Company does not speculatively trade in risk management contracts. The Company's risk management contracts are entered into to manage the risks relating to commodity prices from its business activities.

### Capital Risk Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns to its shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends, the percentage of return of capital or issue new shares.

The Company monitors capital on the basis of the ratio of debt to cash flow. This ratio is calculated using each quarter end net debt (total debt adjusted for working capital) and divided by the preceding twelve months cash flow.

The combination of the Trust reorganization and the acquisition of Silverwing in 2008 resulted in the Company increasing its debt, including negative working capital, to approximately \$105,000,000 resulting in an increased debt to cash flow ratio. During the second quarter, the Company completed a private placement for net proceeds of \$16,985,000 thereby reducing its level of indebtedness. The Company believes that a debt level of approximately one and a half year's cash flow is an appropriate level to allow it to take advantage in the future of either acquisition opportunities or to provide flexibility to develop its horizontal oil, infill oil and shallow gas potential.

The following section (a) of this note provides a summary of the Company's underlying economic positions as represented by the carrying values, fair values and contractual face values of the Company's financial assets and financial liabilities. The Company's debt to cash flow is also provided.

The following section (b) addresses in more detail the key financial risk factors that arise from the Company's activities including its policies for managing these risks.

The following section (c) provides details of the Company's risk management contracts that are used for financial risk management.

a) Financial assets, financial liabilities and debt ratio

The carrying amounts, fair value and face values of the Company's financial assets and liabilities are shown in Table 1.

Table 1

(\$ 000)	As at June 30, 2009			As at December 31, 2008		
	Carrying Value	Fair Value	Face Value	Carrying Value	Fair Value	Face Value
Financial assets						
Restricted term deposit	-	-	-	20	20	20
Accounts receivable	<b>10,553</b>	<b>10,553</b>	<b>10,690</b>	11,753	11,753	11,838
Investments in related party	<b>3,083</b>	<b>3,083</b>	<b>N/A</b>	2,131	2,131	N/A
Financial liabilities						
Accounts payable and accrued liabilities	<b>11,827</b>	<b>11,827</b>	<b>11,827</b>	23,888	23,888	23,888
Due to related parties	<b>22,000</b>	<b>22,000</b>	<b>22,000</b>	6,000	6,000	6,000
Short-term debt	-	-	-	13,325	13,325	13,325
Long-term debt	<b>71,573</b>	<b>71,573</b>	<b>71,573</b>	79,910	79,910	79,910

The net debt and cash flow figures as of June 30, 2009 are presented in Table 2.

Table 2

(\$ 000)	June 30, 2009
Long-term debt	<b>71,573</b>
Accounts payable and accrued liabilities	<b>11,827</b>
Due to related parties	<b>22,000</b>
Current assets <sup>(1)</sup>	<b>(18,642)</b>
Net Debt	<b>86,758</b>
Cash flow from operations <sup>(2)</sup>	<b>48,698</b>
Net debt to cash flow from operations	<b>1.78</b>

<sup>(1)</sup> Current assets include accounts receivable, crude oil inventory, prepaid expenses and investment in related party.

<sup>(2)</sup> Cash flow from operations includes net earnings over the past twelve months less adjustment for non-cash (gain) loss on risk management contracts, stock-based compensation, depletion, depreciation and accretion, future income taxes, changes in non-cash working capital items and asset retirement obligations settled.

b) Risks and mitigations

Market risk is the risk that the fair value or future cash flow of the Company's financial instruments will fluctuate because of changes in market prices. Components of market risk to which the Company is exposed are discussed below.

### Commodity price risk

The Company's principal operation is the production and sale of crude oil, natural gas and natural gas liquids. Fluctuations in prices of these commodities directly impact the Company's performance and ability to continue with its dividends.

The Company had used various risk management contracts to set price parameters for a portion of its production. Management, in agreement with the Board of Directors, decided that at least in the near term it will discontinue the use of commodity price agreements. The Company will assume full risk in respect of commodity prices.

### *Sensitivity Analysis*

Commodity prices have fluctuated significantly over the recent past. The following table updates the annual cash flow sensitivity for movements in the commodity prices of \$1 U.S. WTI for crude oil, \$0.10 per MCF AECO for natural gas and \$0.01 fluctuation in exchange rates.

	Cash Flow
U.S. \$1.00 per barrel	\$ 870,000
Canadian \$0.10 per MCF	\$ 289,000
Change of Canadian \$0.01/U.S. \$ exchange rate	\$ 593,000

### Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from interest bearing financial assets and liabilities that the Company uses. The principal exposure of the Company is on its bank borrowings and related party debts which have variable interest rates which gives rise to a cash flow interest rate risk.

The Company's debt consists of a \$120,000,000 revolving line and \$22,000,000 due to related parties. The borrowings under these facilities are at bank prime plus or minus various percentages as well as by means of bankers' acceptances (BA's). The Company manages its exposure to interest rate risk through entering into various term lengths on its BA's but in no circumstances do the terms exceed six months.

### *Sensitivity Analysis*

Based on historic movements and volatilities in the interest rate markets and management's current assessment of the financial markets, the Company believes that a one percent variation in the Canadian prime interest rate is reasonably possible over a 12-month period. No income tax effect has been calculated as the Company is expected to be non-taxable until January 1, 2018.

A one percent change in the Canadian prime rate would increase or decrease cash flow by \$936,000.

### Foreign exchange risk

The Company has no foreign operations and currently sells all its product sales in Canadian currency. The Company however is exposed to currency risk in that crude oil is priced in U.S. currency then converted to Canadian currency. The Company currently has no outstanding risk

management agreements. Management, in agreement with the Board of Directors, recently decided that at least in the near term it will discontinue the use of commodity price agreements. The Company will assume full risk in respect of foreign exchange fluctuations.

#### Credit risk

Credit risk is the risk that a contracting party will not complete its obligations under a financial instrument and cause the Company to incur a financial loss. The Company is exposed to credit risk on the carrying value of all financial assets included on the balance sheet. To help mitigate this risk:

- The Company only enters into material agreements with credit worthy counterparties. These include major oil and gas companies or major Canadian chartered banks;
- Agreements for product sales are primarily on 30 day renewal terms; and
- Investments are generally only with companies that have common management with the Company.

Of the accounts receivable balance at June 30, 2009 (\$10,553,000) and December 31, 2008 (\$11,753,000), over 77 (2008 – 82) percent relates to product sales with international oil and gas companies or tax receivables from the Canadian Government. In addition, the Company was owed \$950,000 from a company it acquired on July 2 (See Note 14) which will be wound-up and eliminated on consolidation.

The Company assesses quarterly if there has been any impairment of the financial assets of the Company. During the quarter ended June 30, 2009, there was no impairment provision required on any of the financial assets other than certain accounts receivable (see below). The Company does have a credit risk exposure as the majority of the Company's accounts receivable are with counterparties having similar characteristics. However, payments from the Company's largest accounts receivable counterparties have consistently been received within 30 days and the sales agreements with these parties are cancellable with 30 days notice if payments are not received.

At June 30, 2009, approximately \$545,000 or 5.1 percent of the Company's total accounts receivable are aged over 120 days and considered past due. The majority of these accounts are due from various joint venture partners. The Company actively monitors past due accounts and takes the necessary actions to expedite collection, which can include withholding production or net paying when the accounts are with joint venture partners. Should the Company determine that the ultimate collection of a receivable is in doubt, it will provide the necessary provision in its allowance for doubtful accounts with a corresponding charge to earnings. If the Company subsequently determines an account is uncollectable, the account is written off with a corresponding charge to the allowance account. The Company's allowance for doubtful accounts balance at June 30, 2009 is \$137,000 (December 31, 2008 - \$85,000). There were no accounts written off during the period.

The carrying value of accounts receivable approximates their fair value due to the relatively short periods to maturity on this instrument. The maximum exposure to credit risk is represented by the carrying amount on the balance sheet. There are no material financial assets that the Company considers past due.

#### Liquidity risk

Liquidity risk includes the risk that, as a result of Company's operational liquidity requirements:

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will not have sufficient funds to continue with its dividends;
- The Company will be forced to sell assets at a value which is less than what they are worth; or
- The Company may be unable to settle or recover a financial asset at all.

To help reduce these risks the Company:

- Maintains a portfolio of high-quality, long reserve life oil and gas assets.

The Company has the following maturity schedule for its financial liabilities:

(\$ 000)	Recognized on Financial Statements	Payments Due by Period		
		Less than 1 year	2-3 years	4-5 years
Accounts payable and accrued liabilities	Yes - Liability	11,827	-	-
Due to related parties	Yes - Liability	22,000	-	-
Long-term bank debt	Yes - Liability	-	71,573	-
Office leases	No	595	1,260	756
<b>Total</b>		<b>34,422</b>	<b>72,833</b>	<b>756</b>

c) Risk management contracts

The Company currently has no outstanding risk management contracts:

**13. SUBSEQUENT EVENT – DIVIDENDS**

Subsequent to June 30, 2009, the Company declared a dividend of \$0.14 per common share payable on July 31, 2009 to shareholders of record on July 15, 2009 and a dividend of \$0.14 per common share payable on August 31, 2009 to shareholders of record on August 14, 2009.

**14. SUBSEQUENT EVENT – ACQUISITION**

On July 2, 2009, the Company acquired all of the issued common shares of Cobalt Energy Ltd. (Cobalt) for consideration of 201,738 common shares at a value of \$15.92 per common share plus the assumption of \$2,818,000 of negative working capital for total consideration of \$6,025,000. Results of Cobalt's operations will be included in the consolidated financial statements commencing from that date.

The acquisition was accounted for using the purchase method and the purchase price was allocated to the fair value of the assets acquired and the liabilities assumed as follows:

Cost of acquisition (000's)	
Value of common stock	\$3,207
Acquisition costs	<u>170</u>
	<u>\$3,377</u>
Allocation of purchase price:	
Property and equipment	\$7,067
Future income tax liability	(748)
Working capital deficiency	(2,818)
Asset retirement obligations	<u>(124)</u>
	<u>\$3,377</u>

**Board of Directors**

G.J. Drummond, Nassau, Bahamas  
G.F. Fink, Calgary, Alberta  
C.R. Jonsson, Vancouver, British Columbia  
F.W. Woodward, Calgary, Alberta

**Officers**

G.F. Fink – Chief Executive Officer and Chairman of the Board  
R.M. Jarock – President and Chief Operating Officer  
G.E. Schultz – Vice President, Finance, Chief Financial Officer and Secretary

**Registrar & Transfer Agent**

Olympia Trust Company, Calgary, Alberta

**Auditors**

Deloitte & Touche LLP, Calgary, Alberta

**Solicitors**

Borden Ladner Gervais LLP, Calgary, Alberta

**Bankers**

CIBC, Calgary, Alberta  
The Royal Bank of Canada, Calgary, Alberta  
Alberta Treasury Branches, Calgary, Alberta

**Stock Listing**

The Toronto Stock Exchange  
Trading Symbol: BNE

**Head Office**

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