

Bonterra Oil & Gas Ltd.



Third Quarter 2009

HIGHLIGHTS

(\$ 000 except \$ per share/unit)	Three months ended		Nine Months Ended	
	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2009	Sept. 30, 2008
FINANCIAL				
Revenue – realized oil and gas sales	20,965	34,226	60,766	99,117
Funds flow ⁽¹⁾	10,753	21,158	28,909	60,568
Per share/unit – basic	0.58	1.24	1.62	3.56
Per share/unit – diluted	0.57	1.22	1.62	3.53
Payout ratio ⁽²⁾	76%	77%	75%	70%
Cash flow from operations	9,350	22,492	25,225	59,234
Per share/unit – basic	0.50	1.31	1.42	3.48
Per share/unit – diluted	0.50	1.30	1.42	3.45
Payout ratio ⁽²⁾	87%	73%	85%	72%
Cash dividends per share/unit ⁽²⁾	0.44	0.96	1.20	2.50
Net earnings	5,790	21,125	16,427	44,841
Per share/unit – basic	0.31	1.23	0.92	2.63
Per share/unit – diluted	0.31	1.22	0.92	2.61
Capital expenditures and acquisitions	17,660	6,038	22,616	15,002
Total assets			273,543	150,120
Working capital deficiency			14,455	47,499
Long-term bank debt			81,386	-
Shareholders'/Unitholders' equity			74,025	57,623
OPERATIONS ⁽³⁾				
Oil and NGLs – barrels per day	3,084	2,998	3,126	3,053
– average price (\$ per barrel)	65.38	103.36	56.90	97.29
Natural gas – MCF per day	10,881	7,233	11,433	7,215
– average price (\$ per MCF)	3.13	8.20	3.97	8.71
Total barrels of oil equivalent per day (BOE) ⁽⁴⁾	4,898	4,204	5,032	4,256

⁽¹⁾ 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, restricted cash and asset retirement expenditures.

⁽²⁾ Cash payments per share/unit are based on payments made in respect of production months within the quarter.

⁽³⁾ Prior period volumes have been adjusted for prior period adjustments related to various 13th month reviews and joint venture audits completed during the third quarter. Total 2008 volume adjustments are a negative 7,328 barrels of liquids and a negative 6,853 MCF of natural gas.

⁽⁴⁾ 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.

REPORT TO SHAREHOLDERS

Bonterra Oil & Gas Ltd. (“Bonterra” or “the Company”) is pleased to report its operating and financial results for the three months and nine months ended September 30, 2009.

Bonterra is committed to a long-term approach in both operating its business and creating additional value for its shareholders. As a result, the Company has continued its strong dividend policy while focusing on maintaining a sustainable pace of development and a conservative capital structure. Bonterra is always looking to develop new long-term growth opportunities and is currently developing the very promising extension of the Pembina Cardium pool using horizontal multi-stage frac technology.

Operations

Bonterra’s operations are highly-focused with approximately 83 percent of corporate reserves and approximately 85 percent of production from the Pembina Cardium field, Canada’s largest original-oil-in-place pool (17 percent recovered to date). The Company’s 2009 capital development program of \$35 million is focused on unlocking additional value from the Pembina field and includes a targeted drilling program of horizontal multi stage fractured wells and vertical wells and land and corporate acquisitions.

Bonterra has developed a drilling inventory of over 14 years comprised of 400 primarily oil locations, including 80 to 100 horizontal locations in the Pembina field outside of the traditional producing area and numerous horizontal wells in the existing producing area (the number will be determined when there is a longer history from wells already drilled in this area by other oil companies). To date, Bonterra has drilled five gross (3.409 net) Pembina Cardium horizontal oil wells, all outside of the traditional producing area.

The first well was placed on production in February of this year with cumulative production to the end of October of 39,000 BOE. The second well was placed on production in August of this year with cumulative production of 17,200 BOE, also to the end of October. The two wells are currently producing at a combined rate of approximately 235 BOE per day of clean oil.

The third well came on production in mid-October and is currently producing approximately 40 BOE per day. This well was drilled further from the edge of the main Cardium pool (where the reservoir quality is poorer) as part of a farm-in to earn additional potential lands. Bonterra is currently monitoring the well’s productivity to ensure there are no mechanical issues with the well and will be evaluating if remedial work may be required to improve the well’s productivity.

The fourth well was completed and tested at significant rates after recovery of all its load oil. This well is expected to produce at rates similar to the first two wells. The well is currently shut-in for a required pressure build-up and tie-in. The well should be on production by mid-November.

The fifth well has been drilled and will be completed in November and placed on production by early December. Initial well information is encouraging. The drilling rig, after a brief weather delay, has commenced drilling the sixth well in early November.

Bonterra has also expanded its land holding in the Pembina field with the acquisition of mineral rights at a cost of approximately \$4.8 million. In addition, the acquisition of Cobalt Energy Ltd., effective July 1, 2009, included interest in approximately 11 sections of land with Cardium horizontal potential in the Pembina area and an additional 40 BOE per day of production. The company’s current land position totals approximately 150 gross sections in the Pembina area (93 net) of which the Company operates approximately 110 of these sections.

The horizontal development program at Pembina has exceeded Company expectations and as such the Board of Directors and management have approved an acceleration of the program. The Company intends

to add a second rig to the project in mid-November. A total of at least 10 additional horizontal wells are planned to be drilled prior to spring break-up.

Subsequent to quarter-end, Bonterra completed a disposition of non-core producing assets in the Shaunavon area of Saskatchewan to Eagle Rock Exploration for \$24 million in cash and approximately 30.8 million common shares in Eagle Rock. The disposition consisted of approximately 200 BOE per day of medium gravity oil and 18.5 sections of land. Proceeds from the disposition will be used for the acceleration of the horizontal drill program in the Pembina area.

Production

Bonterra's production volumes have increased approximately 18 percent in the first nine months of 2009 from the same period last year to 5,032 BOE per day. As anticipated, production was slightly lower quarter over quarter due to longer than usual gas plant turnarounds which resulted in over 1,000 MCF per day shut in for a two week period in July. In addition, approximately 400 MCF per day was shut in at the beginning of August due to low natural gas prices. The Company will be reactivating these wells as natural gas prices continue to improve.

Production guidance for the year has been lowered to approximately 5,100 BOE per day from 5,200 BOE per day to reflect the shut-in production mentioned above, deferring of capital expenditures to the second half of the year, the Shaunavon disposition and a net negative adjustment to 2009 resulting from underpayment of joint venture parties in 2008 after the Company completed several 13th month adjustments and joint venture audits. However, this still represents an approximate 20 percent increase in 2009 average daily production rates over the previous year.

Financial

Financial results during the third quarter of 2009 continued to be negatively impacted by the low commodity price environment. Revenue and cash flow from operations in the first nine months of 2009 decreased 39 percent and 57 percent, respectively when compared to the same period in 2008 primarily due to a 42 percent decrease in crude oil prices and a 54 percent decrease in natural gas prices over the same time frame.

However, quarter over quarter revenue and cash flow from operations began to show modest improvements due mainly to the healthier crude oil prices being received. Subsequent to quarter-end, prices continued to increase with WTI crude oil averaging approximately U.S. \$76.00 per barrel and AECO natural gas averaging \$4.68 per MCF in the month of October.

The nine month 2009 increase in G&A to \$2,835,000 from \$2,577,000 in the 2008 nine month period is extremely perplexing. Despite reducing G&A costs by approximately \$1,000,000, mainly from reductions in compensation paid to employees and consultants, the overall costs increased by \$150,000. The \$1,150,000 cost is almost entirely attributable to increases in fees for banks and the professional fees needed to deal with changes to financial and regulatory reporting requirements. These costs are out of control and contribute nothing towards Company operations. Individual companies have no control over these types of costs and something needs to be done on a united front to be able to intervene in the annual, very substantial increases that are taking place in these areas.

Bonterra's netbacks have also shown improvements with a 12 percent increase to \$23.96 per BOE in the third quarter of 2009 compared with \$21.45 per BOE in the second quarter of 2009. Netbacks have been positively impacted by the continued increase in crude oil prices and improving natural gas prices. In addition, Bonterra has decreased both field operating costs and general and administrative costs quarter over quarter which has contributed to the enhanced netback levels.

As a result, Bonterra was able to increase the dividend to shareholders to \$0.16 per share beginning with the October 30, 2009 dividend payment (September 2009 production month) from \$0.14 per share previously.

Cash payments to shareholders during the second quarter of 2009 totaled \$0.44 per share with a payout ratio of 76 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 payment if necessary.

Outlook

To ensure sustainability, the Company continues to develop new long-term, lower-risk opportunities with a particular focus on the acceleration of its Pembina Cardium horizontal play. The lower pricing environment may still provide opportunities for the Company in acquiring additional land and producing properties or additional corporate acquisitions for further growth of its asset base. As well, Bonterra will continue to seek out opportunities to strengthen its financial position through cost-reduction initiatives, project reviews and the implementation of further operational efficiencies across the company.

Subject to commodity prices and regulatory policies such as the Alberta competition review, Bonterra is projecting 2010 capital expenditures of \$40,000,000 to \$50,000,000, production volumes of 5,700 BOE per day to 6,000 BOE per day and a debt to cash flow ratio of approximately 1.5 to 1.

Bonterra remains well-positioned to continue paying a high dividend, maintaining the long-term sustainability of its business and providing superior value to its shareholders.



George F. Fink
Chief Executive Officer and Director



Randy M. Jarock
President and Chief Operating Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following report dated November 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 nine months ended September 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		
	Q3	Q2	Q1
Revenue – realized oil and gas sales	20,965	20,501	19,300
Cash flow from operations	9,350	9,238	6,632
Per share – basic	0.50	0.52	0.38
Per share – fully diluted	0.50	0.52	0.38
Cash payments per share ⁽¹⁾	0.44	0.40	0.36
Payout Ratio ⁽¹⁾	87%	77%	94%
Net earnings	5,790	4,544	6,093
Per share – basic	0.32	0.26	0.35
Per share – fully diluted	0.32	0.26	0.35
Capital expenditures and acquisitions	17,660	2,255	2,696
Total assets	273,543	258,393	260,732
Working capital deficiency	14,455	13,989	14,909
Long-term bank debt	81,386	71,573	89,383
Shareholders' equity	74,025	72,332	56,377
Operations ⁽²⁾			
Oil and NGLs (barrels per day)	3,084	3,029	3,268
Natural gas (MCF per day)	10,881	11,551	11,877
Total BOE per day ⁽³⁾	4,898	4,954	5,245

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 ⁽¹⁾	0.62	0.96	0.84	0.70
Payout Ratio ⁽¹⁾	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 bank debt	79,910	-	-	-
Shareholders'/unitholders' equity	56,777	57,623	46,612	48,136
Operations ⁽³⁾				
Oil and NGLs (barrels per day)	3,055	2,998	3,009	3,153
Natural gas (MCF per day)	8,817	7,233	7,272	7,139
Total BOE per day ⁽²⁾	4,525	4,204	4,221	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 ⁽¹⁾	0.66	0.66	0.66	0.66
Payout Ratio ⁽¹⁾	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 bank 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 ⁽³⁾	4,295	4,086	4,184	4,305

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

⁽²⁾ 2009 and 2008 quarterly volumes have been adjusted for prior period adjustments related to various 13th month reviews and joint venture audits that were completed during the third quarter of 2009.

⁽³⁾ 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			Nine months ended	
	Sept. 30, 2009	June 30, 2009	Sept. 30, 2008	Sept. 30, 2009	Sept. 30, 2008
Crude oil and NGLs (barrels per day)	3,084	3,029	2,998	3,126	3,053
Natural gas (MCF per day)	10,881	11,551	7,233	11,433	7,215
Average BOE per day	4,898	4,954	4,204	5,032	4,256

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 nine months of 2009 were up 18.2 percent over the corresponding 2008 period. Added production related to the Silverwing Energy Inc. (Silverwing) acquisition, Bonterra's 2009 drilling program including the production from the Company's first two Pembina Cardium horizontal wells, new gas wells drilled and optimization of existing wells. These additions more than offset Bonterra's average corporate production decline.

During the third quarter the Company completed several 13th month adjustments and joint venture audits. The result of these audits was a net negative adjustment to 2008 volumes of 7,328 barrels of oil and natural gas liquids and 6,853 MCF of natural gas. These volumes and adjustments to quarters one and two of 2009 have been adjusted to each respective quarter.

Q3 2009 production was down 56 BOE per day from Q2 2009. The modest production declines per day during Q3 2009 compared with Q2 and Q1 2009 is mainly due to the lack of capital expenditures in the first two quarters of 2009 (Q3 2009 - \$17,660,000; Q2 2009 - \$2,255,000; Q1 2009 - \$2,701,000) and reductions in natural gas production resulting from shut-in gas wells due to extensive plant maintenance and shut-in wells due to low gas prices.

The Company did not drill any wells in 2009 before June when it commenced with this year's drill program. Since June, Bonterra has drilled four horizontal wells (net 2.72) and five vertical wells (net 4.75). The Company's first horizontal well was drilled in 2008 and was completed in Q1 2009. All of the drilled wells to date started producing during the latter part of Q3 or in Q4. In November, the Company engaged the services of a second rig and will continue its horizontal drill program with both rigs for the balance of 2009 and until road bans are imposed in March 2010. Bonterra's first two wells have been producing for 9.5 months and 3.5 months, respectively and the Company is pleased with results to date. The acquisition of Cobalt Energy Ltd. (Cobalt) effective July 1, 2009 resulted in only a modest increase in production but provided the Company with additional ownership in potential horizontal drilling opportunities including the horizontal wells drilled during the third quarter.

Subject to commodity prices and regulatory policies such as the Alberta competition review, Bonterra is projecting 2010 production volumes of 5,700 BOE per day to 6,000 BOE per day.

Revenue

(\$)	Three months ended			Nine Months Ended	
	Sept. 30, 2009	June 30, 2009	Sept. 30, 2008	Sept. 30, 2009	Sept. 30, 2008
Revenue – oil and gas sales (000's)	20,965	20,501	34,226	60,766	99,117
Average Realized Prices:					
Crude oil and NGLs (per barrel)	65.38	59.77	103.36	56.90	97.29
Natural gas (per MCF)	3.13	3.64	8.20	3.97	8.71

Revenue from petroleum and natural gas sales decreased \$38,351,000 in the first nine months of 2009 from the corresponding period in 2008 primarily due to a 42 percent drop in crude oil prices and a 54 percent drop in natural gas prices. The drop in commodity prices was partially offset with the above mentioned production increases.

Quarter over quarter the Company saw an increase in revenues of \$464,000 due to improved crude oil prices offset partially by reduced gas prices and production volumes. Due to the above mentioned production adjustments, third quarter revenues were reduced by \$578,000 relating to prior period items.

Royalties

(\$ 000)	Three months ended			Nine Months Ended	
	Sept. 30, 2009	June 30, 2009	Sept. 30, 2008	Sept. 30, 2009	Sept. 30, 2008
Crown royalties	1,248	674	3,523	3,286	11,399
Freehold royalties, gross overriding royalties and net carried interests	697	587	1,134	1,785	2,921
Total royalty expense	1,945	1,261	4,657	5,071	14,320
% of total revenue	9.3	6.2	13.6	8.3	14.4

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 5.4 percent (2008 – 10.6 percent) of gross revenue and approximately 2.9 percent (2008 – 2.7 percent) for other royalties. The increase in percent of other royalties is due to the new horizontal oil wells being drilled on freehold mineral right lands.

The recently announced new Alberta Crown royalty rates vary by prices as well as productivity levels. With recent declines in commodity prices and the Silverwing acquisition (mostly BC production with lower Crown royalty rates) the Company has experienced a significant reduction in Crown royalties in the first nine months of 2009.

The third quarter royalties have increased \$684,000 over second quarter due primarily to higher crude oil pricing and increased production resulting from the Company's new horizontal oil well which has a higher royalty rate.

Production Costs

(\$ 000)	Three months ended			Nine Months Ended	
	Sept. 30, 2009	June 30, 2009	Sept. 30, 2008	Sept. 30, 2009	Sept. 30, 2008
Production costs	6,585	7,355	6,148	20,978	18,554
\$ per BOE ⁽¹⁾	15.79	16.12	15.84	15.66	15.87

⁽¹⁾Excludes impact of production adjustments

Total production costs in the first nine months of 2009 have increased by \$2,424,000 over the first nine months of 2008. The increase is due to increased production volumes (see Production). On a per BOE basis, production costs have declined in the first nine months 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 third quarter, Bonterra recorded a reduction of \$531,000 in production costs related to the above mentioned adjustments related to prior period operations.

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 higher production costs for the Company are substantially offset by current low royalty rates of 8.3 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			Nine Months Ended	
	Sept. 30, 2009	June 30, 2009	Sept. 30, 2008	Sept. 30, 2009	Sept. 30, 2008
G&A Expense	788	1,108	845	2,835	2,577
\$ per BOE ⁽¹⁾	1.75	2.43	2.18	2.06	2.20

⁽¹⁾Excludes impact of production adjustments

The increase in G&A expense in the first nine months of 2009 compared to the first nine months of 2008 was due to increased contract accounting personnel costs (\$160,000) related to temporary staffing needs in place of full time personnel; professional service costs (\$186,000) related to various legal and accounting services dealing with changes to annual filing requirements, IFRS and internal control reviews; computer services fees (\$289,000) related to additional monthly geological software licensing fees, service costs related to new production accounting software, and the contracting of a new IT manager position; bad debt expense (\$65,000) due to numerous accounts with small oil and gas organizations which have become delinquent; bank charges (\$488,000) related to cancelling the old banking facility and setting up the new banking facility, offset partially by reduced employee compensation (\$973,000).

Quarter over quarter saw a decrease of \$320,000 related primarily to an increase of \$258,000 in administrative charges to capital projects. The balance of the decrease was attributable to reduced costs associated with continuous disclosure and general cost reductions.

Interest Expense

(\$ 000)	Three months ended			Nine Months Ended	
	Sept. 30, 2009	June 30, 2009	Sept. 30, 2008	Sept. 30, 2009	Sept. 30, 2008
Interest Expense	815	915	545	2,556	1,994

Interest charges increased in the first nine months of 2009 as the average outstanding debt balance (including related party balances) increased by approximately \$49 million over the first nine months of 2008. The acquisitions of Silverwing and Cobalt as well as the reorganization into a corporation resulted in approximately \$47 million of additional debt. In addition the Company has incurred approximately \$19 million in capital expenditures during this period. These increases were partially offset by net proceeds of \$16,985,000 from a 2009 second quarter private equity issue. Offsetting the increased debt balance 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 balance. Quarter over quarter saw a marginal decrease in interest charges due to reduced interest on the loan to related parties as well as timing of debt renewals.

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 ⁽¹⁾ 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 ⁽²⁾	125	150	175	200	250
Bankers' Acceptances Rate Plus ⁽²⁾	275	300	325	350	400

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

⁽²⁾ 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 quarter percent for the balance of the fiscal year.

Reorganization Costs

Bonterra incurred \$752,000 in G&A costs in 2008 related to the conversion to a corporation. These costs consisted primarily of legal, accounting and printing costs related to the negotiation, due diligence and preparation of the information circular. These were one-time costs that will not be incurred on a continuous basis.

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 \$210,000 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 \$14,714,000 and \$10,611,000, respectively for the nine month periods ending September 30, 2009 and September 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 and Cobalt acquisitions.

Depletion, depreciation and accretion expense for Q3 2009 compared to Q2 2009 increased by \$282,000 due to the additional capital cost associated with the Cobalt acquisition offset partially by reduced production volumes.

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 \$211,000 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 federal 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	22,638
Eligible capital expenditures	7	7,501
Share issue costs	20	4,064
Canadian oil and gas property expenditures	10	29,180
Canadian development expenditures	30	54,112
Canadian exploration expenditures	100	11,390
SR&ED expenditures	100	80,357
Income tax losses carried forward ⁽¹⁾	100	278,163
		487,405

⁽¹⁾ Income tax losses carried forward expire in the following years; 2013 - \$1,069,000, 2024 - \$3,347,000, 2025 - \$7,532,000, 2026 - \$104,019,000, 2027 - \$117,436,000, 2028 - \$34,726,000, 2029 - \$10,034,000. The Company has used \$28,346,000 of its 2026 provincial tax loss to shelter provincial income.

In addition to the above tax pools, the Company has \$22,284,000 of investment tax credits (ITC) that expire in the following years; 2010 - \$1,142,000, 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 current tax provision incorporates the claim of \$5,386,000 ITC's against federal taxes payable.

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.

Net Earnings

(\$ 000)	Three months ended			Nine Months Ended	
	Sept. 30, 2009	June 30, 2009	Sept. 30, 2008	Sept. 30, 2009	Sept. 30, 2008
Net Earnings	5,790	4,544	21,125	16,427	44,841

Net earnings decreased in the first nine months of 2009 by \$28,414,000 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 per BOE of reserves combined with the Company's low production decline rates should allow for continued positive earnings.

The three months ended September 30, 2009 saw an increase of \$1,246,000 in net earnings from the three months ended June 30, 2009. The increase was primarily due to reduced operating and administration costs.

Comprehensive Income

Other comprehensive income for 2009 consists of an unrealized gain on investment in a related party of \$1,078,000 (2009 – (\$488,000)) due to an increase in the related company's fair value.

Cash Flow from Operations

(\$ 000)	Three months ended			Nine Months Ended	
	Sept. 30, 2009	June 30, 2009	Sept. 30, 2008	Sept. 30, 2009	Sept. 30, 2008
Cash flow from operations	9,350	9,238	22,492	25,225	59,234

Nine month 2009 cash flow from operations decreased 57 percent compared to first nine months of 2008 mainly due to decreased commodity prices received. Q3 cash flow increased by \$112,000 from Q2 due primarily to reduced operating and administration costs offset by the reduction in operating accounts payable.

Cash Netback

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

\$ per Barrel of Oil Equivalent (BOE)	2009	2008
Production volumes (BOE)	1,373,736	1,166,144
Gross production revenue	\$ 44.65	\$ 91.94
Realized gain (loss) on risk management contracts	-	(7.13)
Royalties	(3.69)	(12.25)
Field operating costs	(15.66)	(15.87)
Field netback	25.30	56.69
General and administrative	(2.06)	(2.20)
Interest and taxes	(2.21)	(2.03)
Cash netback	\$ 21.03	\$ 52.46

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

\$ per Barrel of Oil Equivalent (BOE)	Sept. 30, 2009	June 30, 2009
Production volumes (BOE)	450,616	450,814
Gross production revenue	\$ 47.81	\$ 44.93
Royalties	(4.32)	(2.76)
Field operating costs	(15.79)	(16.12)
Field netback	27.70	26.05
General and administrative	(1.75)	(2.43)
Interest and taxes	(1.99)	(2.17)
Cash netback	\$ 23.96	\$ 21.45

Related Party Transactions

The Company owns 689,682 (December 31, 2008 – 689,682) common shares of Comaplex Minerals Corp. ("Comaplex") which have a fair market value as of September 30, 2009 of \$3,386,000 (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 1.2 percent of the issued and outstanding common shares of Comaplex. In addition, Comaplex owns 204,633 (December 31, 2008 – 204,633) common shares in the Company. The Company has common directors and management with Comaplex.

Comaplex paid a management fee to the Company of \$248,000 (2008 - \$248,000). Comaplex also shares office rental costs and reimburses the Company for costs related to employee benefits and office materials. 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 September 30, 2009, Comaplex owed the Company \$75,000 (December 31, 2008 - \$56,000).

As of September 30, 2009, Comaplex has loaned the Company \$12,000,000 (December 31, 2008 - Nil). The loan is unsecured and until June 30, 2009 the Company paid interest at Canadian chartered bank prime plus one quarter of a percent and it 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 with its banking syndicate resulting from an improved debt to cash flow ratio (see Interest Expense and Liquidity and Capital Resources sections) and since the benefits of this loan are shared with Comaplex, the interest rate was reduced accordingly.

Interest paid on this loan during the first nine months of 2009 was \$134,000. 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 \$90,000 (2008 - \$178,000). 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 September 30, 2009, the Company had an account receivable from Pine Cliff of \$1,000 (December 31, 2008 – \$1,000).

As of September 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 also decreased to Canadian chartered bank prime less .25 percent. Interest paid on this loan during the first nine months of 2009 was \$152,000. 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. Subsequent to quarter end, the Company's CEO made a further loan of \$1,500,000 under the same terms and conditions.

The Company's bank agreement requires that the loans to Comaplex and the Company's CEO can only be repaid should the Company have sufficient available borrowing limits under the Company's credit facility.

Liquidity and Capital Resources

During the first nine months of 2009, the Company incurred capital costs of \$22,616,000 (2008 - \$15,002,000). The Company drilled two (1.36 net) horizontal oil wells, five (4.75 net) vertical Cardium oil wells and commenced drilling of a third (0.68) horizontal oil well for total drilling costs of approximately

\$6,600,000 net of drilling credits of \$1,741,000 million (see below). In addition Bonterra acquired and paid \$4,746,000 for mineral rights in the Pembina area of Alberta.

On July 2, 2009, Bonterra completed its acquisition of Cobalt. The Company issued 201,438 common shares and assumed \$2,856,000 of negative working capital and incurred approximately \$170,000 in acquisition costs for a total calculated accounting cost of \$7,105,000. This acquisition resulted in acquiring an additional 40 BOE per day of production as well as increasing the Company's working interest in approximately 11 sections of land with potential Cardium horizontal locations in the Pembina area of Alberta.

During the first nine months of 2009, Bonterra also participated in drilling 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.

The government 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 planning to maximize the crown royalty credits available under the new drilling incentive program which will result in a substantial reduction of capital costs on a per well basis.

The Company currently has plans to spend an estimated \$22,000,000 (net of drilling incentives) in 2009 (approximately \$10,000,000 in the fourth quarter) on development of its oil and gas properties. Land acquisitions and property or corporate acquisitions estimated to be \$13,000,000 (including the Cobalt acquisition) will bring the total to approximately \$35,000,000. With the recent finalizing of the Crown royalty credit program by the Alberta government, the Company plans on contracting a second drill rig in mid November for drilling additional horizontal Pembina Cardium oil wells.

Subsequent to September 30, 2009, the Company entered into a purchase and sale agreement to divest of a portion of its Shaunavon oil production to Eagle Rock Exploration Ltd. (Eagle Rock) (TSXV: ERX). The proceeds of disposition consist of \$24,000,000 cash and 30,769,200 common shares in Eagle Rock (representing approximately 4.2 percent of the outstanding common shares of the company). The disposition closed on November 6, 2009. These funds will be used to accelerate the development of the Company's horizontal Pembina Cardium oil play.

Bonterra anticipates funding the 2009 capital program out of cash flow, the Company's line of credit, its recent equity issue and proceeds from the above mentioned sale. 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 September 30, 2009, the Company's bank loan was \$81,386,000 (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.

Subject to commodity prices and regulatory policies such as the Alberta competition review, Bonterra is projecting 2010 capital expenditures of \$40,000,000 to \$50,000,000.

The following is a list of the material bank 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 September 30, 2009 the Company had consolidated debt of \$73,841,000.

- 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 \$7,781,000 in dividends. This compares to \$9,839,000 that was allowed under the bank covenant. During the third quarter the Company received a waiver of this requirement for the fourth quarter and instead is restricted to paying no more than the lesser of 80 percent of quarter four cash flow or \$10,000,000.

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
Issued on acquisition of Cobalt	201,438	3,207
Issue costs for private placement	-	(1,046)
Future tax effect of share issue costs	-	267
Balance, September 30, 2009	18,527,041	119,954

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.

On July 2, 2009, the Company acquired all of the issued common shares of Cobalt for consideration of 201,438 common shares at a value of \$15.92 per common share.

The Company provides an option plan for its directors, officers, employees and consultants. Under the plan, the Company may grant options for up to 1,852,704 (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 September 30, 2009 and December 31, 2008, and changes during the nine month and twelve month periods ended on those dates is presented below:

	September 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 September 30, 2009:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding At 9/30/09	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 9/30/09	Weighted-Average Exercise Price
\$14.90	33,000	3.3 years	\$14.90	-	\$ -
20.50	1,390,500	3.1 years	20.50	-	-
\$14.90-20.50	1,423,500	3.1 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 September 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 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 various time restrictions, the Company delayed its second phase of its IFRS project to the fourth 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 or visit our website at www.bonterraenergy.com.

Submitted on behalf of the Board of Directors,

A handwritten signature in dark ink, appearing to read "G. Fink", written in a cursive style.

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

As at September 30, 2009 and December 31, 2008

(unaudited)

(\$ 000)	2009	2008
Assets		
Current		
Restricted term deposit	-	20
Accounts receivable (Note 11)	11,175	11,753
Crude oil inventory	492	845
Prepaid expenses	3,910	4,222
Future income tax asset (Note 8)	9,405	2,669
Investments in related party (Note 3)	3,386	2,131
	28,368	21,640
Restricted cash (Note 4)	1,012	1,252
Future income tax asset (Note 8)	78,448	85,416
Property and Equipment (Note 5)		
Petroleum and natural gas properties and related equipment	255,301	232,685
Accumulated depletion and depreciation	(89,586)	(75,692)
Net Property and Equipment	165,715	156,993
	273,543	265,301
Liabilities		
Current		
Accounts payable and accrued liabilities	12,700	23,888
Due to related parties (Note 6)	22,000	6,000
Deferred credit (Note 8)	8,123	2,305
Short-term bank debt (Note 7)	-	13,325
	42,823	45,518
Long-term bank debt (Note 7)	81,386	79,910
Deferred credit (Note 8)	56,421	64,758
Asset retirement obligations	18,888	18,338
	199,518	208,524
Shareholders' Equity (Note 9)		
Share capital	119,954	99,530
Contributed surplus	3,253	2,542
	123,207	102,072
Deficit	(51,680)	(46,715)
Accumulated other comprehensive income (Note 10)	2,498	1,420
	(49,182)	(45,295)
Total Shareholders' Equity	74,025	56,777
	273,543	265,301

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the periods ended September 30 (unaudited) (\$ 000)	Three Months		Nine Months	
	2009	2008	2009	2008
Unitholders' equity, beginning of period (Note 1)	-	46,612	-	44,218
Shareholders' equity, beginning of period (Note 1)	72,332	-	56,777	-
Comprehensive income for the period	6,055	20,801	17,505	44,353
Net capital contributions	3,181	903	20,424	5,393
Stock-based compensation	243	273	711	835
Dividends declared	(7,781)	-	(21,392)	-
Distributions declared	-	(10,966)	-	(37,176)
Unitholders' Equity, End of Period	-	57,623	-	57,623
Shareholders' Equity, End of Period	74,025	-	74,025	-

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

For the periods ended September 30 (unaudited) (\$000, except \$ per Share)	Three Months		Nine Months	
	2009	2008	2009	2008
Revenue				
Oil and gas sales	20,965	37,174	60,766	107,446
Loss on risk management contracts - cash	-	(2,948)	-	(8,329)
Gain on risk management contracts - non-cash	-	8,066	-	1,041
Royalties	(1,945)	(4,657)	(5,071)	(14,320)
Interest and other	3	7	63	29
	19,023	37,642	55,758	85,867
Expenses				
Production costs	6,585	6,148	20,978	18,554
General and administrative	788	845	2,835	2,577
Interest on debt	815	545	2,556	1,994
Reorganization costs	-	752	-	752
Stock-based compensation	243	273	711	835
Depletion, depreciation and accretion	5,191	3,601	14,714	10,611
	13,622	12,164	41,794	35,323
Earnings Before Taxes	5,401	25,478	13,964	50,544
Taxes (Recovery)				
Current	82	128	480	381
Future	(471)	4,225	(2,943)	5,322
	(389)	4,353	(2,463)	5,703
Net Earnings for the Period	5,790	21,125	16,427	44,841
Deficit, beginning of period	(49,689)	(54,037)	(46,715)	(51,543)
Dividends declared	(7,781)	-	(21,392)	-
Distributions declared	-	(10,965)	-	(37,175)
Deficit, End of Period	(51,680)	(43,877)	(51,680)	(43,877)
Net Earnings Per Share – Basic (Note 9)	0.31	1.23	0.92	2.63
Net Earnings Per Share – Diluted (Note 9)	0.31	1.22	0.92	2.61

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Periods Ended September 30 (unaudited) (\$ 000, except \$ per Share)	Three Months		Nine Months	
	2009	2008	2009	2008
Net Earnings for the Period	5,790	21,125	16,427	44,841
Unrealized gains and losses on investments (net of Income taxes; Three months ended 2009 - 44, 2008 - (56); Nine months ended 2009 - 178, 2008 - (78))	260	(324)	1,078	(488)
Other Comprehensive Income (Loss)	260	(324)	1,078	(488)
Comprehensive Income	6,050	21,801	17,505	44,353
Comprehensive Income Per Share – Basic (Note 9)	0.32	1.21	0.98	2.60
Comprehensive Income Per Share – Diluted (Note 9)	0.32	1.21	0.98	2.59

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the periods ended September 30 (unaudited) (\$000)	Three Months		Nine Months	
	2009	2008	2009	2008
Operating Activities				
Net earnings for the period	5,790	21,125	16,427	44,841
Items not affecting cash				
Gain on risk management contracts - non-cash	-	(8,066)	-	(1,041)
Stock-based compensation	243	273	711	835
Depletion, depreciation and accretion	5,191	3,601	14,714	10,611
Future income taxes	(471)	4,225	(2,943)	5,322
	10,753	21,158	28,909	60,568
Change in non-cash working capital				
Accounts receivable	420	2,901	1,620	(1,936)
Crude oil inventory	30	12	329	99
Prepaid expenses	640	76	394	(971)
Accounts payable and accrued liabilities	(2,589)	(940)	(5,999)	4,102
Restricted cash	235	-	240	-
Asset retirement obligations settled	(139)	(715)	(268)	(2,628)
	(1,403)	1,334	(3,684)	(1,334)
Cash Provided by Operating Activities	9,350	22,492	25,225	59,234
Financing Activities				
Increase (decrease) in debt	7,612	(4,135)	(14,050)	(8,577)
Due to related parties	-	-	16,000	-
Issue of shares pursuant to private placement	-	-	17,996	-
Share issue costs	(35)	-	(1,046)	-
Stock option proceeds	-	903	-	5,393
Dividends	(7,781)	-	(21,392)	-
Unit distributions	-	(16,439)	-	(40,899)
Cash Used in Financing Activities	(204)	(19,671)	(2,492)	(44,083)
Investing Activities				
Property and equipment expenditures	(10,501)	(6,038)	(15,457)	(15,002)
Restricted term deposit	-	-	20	-
Change in non-cash working capital				
Accounts receivable	(1,742)	-	(1,742)	-
Accounts payable and accrued liabilities	3,097	3,217	(5,554)	(149)
Cash Used in Investing Activities	(9,146)	(2,821)	(22,733)	(15,151)
Net Cash Inflow	-	-	-	-
Cash, beginning of period	-	-	-	-
Cash, End of Period	-	-	-	-
Cash Interest Paid	833	545	2,520	1,994
Cash Taxes Paid	349	109	541	477

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Periods Ended September 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 of the Trust by 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 of 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.

During the third quarter the Company applied for a \$250,000 reduction in the escrow account due to the abandonment of 5 wells. This amount is included in accounts receivable and was received subsequent to the end of the quarter.

5. PROPERTY AND EQUIPMENT

(\$ 000)	September 30, 2009		December 31, 2008	
	Cost	Accumulated Depletion and Depreciation	Cost	Accumulated Depletion and Depreciation
Undeveloped land	7,288	-	2,295	-
Petroleum and natural gas properties and related equipment	246,566	88,606	229,136	74,844
Furniture, equipment and other	1,447	980	1,254	848
	255,301	89,586	232,685	75,692

On July 2, 2009, the Company acquired all of the issued common shares of Cobalt Energy Ltd. (Cobalt) for consideration of 201,438 common shares at a value of \$15.92 per common share plus the assumption of \$2,856,000 of negative working capital for total consideration of \$6,063,000. Results of Cobalt's operations have been 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	\$7,105
Future income tax liability	(748)
Working capital deficiency	(2,856)
Asset retirement obligations	<u>(124)</u>
	<u>\$3,377</u>

6. DUE TO RELATED PARTIES

As of September 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. 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 nine months of 2009 was \$152,000. Subsequent to quarter end, the Company's CEO made a further loan of \$1,500,000 under the same terms and conditions.

As of September 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. Interest paid on this loan during the nine months of 2009 was \$134,000.

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

Please refer to notes 3 and 11 for additional related party transactions.

7. BANK DEBT

As of September 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 September 30, 2009 was \$81,386,000 (December 31, 2008 - \$93,235,000). The interest rate on the outstanding debt as of September 30, 2009 was 4.25 percent on the Company's Canadian prime rate loan. Effective October 1, 2009 the interest was reduced to 4.00 percent due to the improvement in the Company's debt to cash flow ratio (see below). 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 September 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 ⁽¹⁾ 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 ⁽²⁾	125	150	175	200	250
Bankers' Acceptances Rate Plus ⁽²⁾	275	300	325	350	400

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

⁽²⁾ 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. During the third quarter the Company received a waiver of this requirement for the fourth quarter and instead is restricted to paying no more than the lesser of 80 percent of quarter four cash flow or \$10,000,000.

8. TAXES

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

(\$ 000)	September 30 2009	December 31 2008
Future tax liability related to investments:	(369)	(212)
Future tax liability related to property and equipment:	(6,193)	(7,097)
Future tax asset related to asset retirement obligations:	4,751	4,593
Futures tax asset related to finance costs:	1,012	1,134
Future tax asset related to corporate tax losses and SR&ED claims:	79,247	86,998
Future Tax Asset – Long-term	78,448	85,416
Current portion of future income tax asset related to corporate Tax losses and SR& ED claims:	9,405	2,669
Future Tax Asset - Current	9,405	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 nine months of 2009	(2,518)
Balance as of September 30, 2009	64,545
Current portion	8,123
Long-term portion	56,421
	64,545

The Company and its subsidiaries have the following federal 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	22,638
Eligible capital expenditures	7	7,501
Share issue costs	20	4,064
Canadian oil and gas property expenditures	10	29,180
Canadian development expenditures	30	54,112
Canadian exploration expenditures	100	11,390
SR&ED expenditures	100	80,357
Income tax losses carried forward ⁽¹⁾	100	278,163
		487,405

⁽¹⁾ Income tax losses carried forward expire in the following years; 2013 - \$1,069,000, 2024 - \$3,347,000, 2025 - \$7,532,000, 2026 - \$104,019,000, 2027 - \$117,436,000, 2028 - \$34,726,000, 2029 - \$10,034,000. The Company has used \$28,346,000 of its 2026 provincial tax loss to shelter provincial income.

The Company has \$22,284,000 of investment tax credits (ITC) that expire in the following years; 2010 - \$1,142,000, 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 current tax provision incorporates the claim of \$5,386,000 ITC's against federal taxes payable.

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
Issued on acquisition of Cobalt	201,438	3,207
Issue costs for private placement	-	(1,046)
Future tax effect of share issue costs	-	267
Balance, September 30, 2009	18,527,041	119,954

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.

On July 2, 2009, the Company acquired all of the issued common shares of Cobalt Energy Ltd. (Cobalt) for consideration of 201,438 common shares at a value of \$15.92 per common share. The Company incurred costs of \$35,000 in relation to the issuance of these shares.

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 nine month periods ended September 30 is as follows:

	Three Months		Nine Months	
	2009	2008	2009	2008
Basic shares/units outstanding	18,524,851	17,025,803	17,821,584	16,982,068
Dilutive effect of share/unit options	217,416	185,533	5,270	102,363
Diluted shares/units outstanding	18,742,267	17,211,336	17,826,854	17,084,431

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

Contributed surplus (\$ 000)	2009	2008
Balance, beginning of period	2,542	2,140
Stock-based compensation expensed (non-cash)	711	562
Stock-based options exercised (non-cash)	-	(448)
Balance, end of period	3,253	2,254

The deficit balance is composed of the following items:

(\$ 000)	September 30, 2009	September 30, 2008
Accumulated earnings	224,609	197,597
Accumulated cash dividends/distributions	(276,289)	(241,474)
Deficit	(51,680)	(43,877)

The Company provides an option plan for its directors, officers, employees and consultants. Under the plan, the Company may grant options for up to 1,852,704 (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 September 30, 2009 and December 31, 2008, and changes during the nine month and twelve month periods ended on those dates is presented below:

	September 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 September 30, 2009:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding At 9/30/09	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 9/30/09	Weighted-Average Exercise Price
\$14.90	33,000	3.3 years	\$14.90	-	\$ -
20.50	1,390,500	3.1 years	20.50	-	-
\$14.90-20.50	1,423,500	3.1 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	September 30, 2009
Unrealized gains on available-for-sale financial assets (net of tax)	1,420	1,078	2,498

(\$ 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 \$248,000 (2008 - \$248,000) for management services and office administration. This fee has been included as a recovery in general and administrative expenses. As at September 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 \$90,000 (2008 - \$178,000) for management services and office administration. This fee has been included as a recovery in general and administrative expenses. As at September 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 acquisitions of Silverwing in 2008 and Cobalt in 2009 resulted in the Company increasing its debt resulting in an increased debt to cash flow ratio. During the second quarter of 2009, the Company completed a private placement for net proceeds of \$16,985,000 thereby reducing its level of indebtedness. The Company has also entered into a purchase and sale agreement for the disposal of certain non-core producing assets which closed subsequent to quarter end (see Note 14) that will provide additional cash proceeds of \$24,000,000. 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 undeveloped resources by horizontal or vertical drill programs.

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 September 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	11,175	11,175	11,340	11,753	11,753	11,838
Investments in related party	3,386	3,386	N/A	2,131	2,131	N/A
Financial liabilities						
Accounts payable and accrued liabilities	12,700	12,700	12,700	23,888	23,888	23,888
Due to related parties	22,000	22,000	22,000	6,000	6,000	6,000
Short-term bank debt	-	-	-	13,325	13,325	13,325
Long-term bank debt	81,386	81,386	81,386	79,910	79,910	79,910

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

Table 2

(\$ 000)	September 30, 2009
Long-term bank debt	81,386
Accounts payable and accrued liabilities	12,700
Due to related parties	22,000
Current assets ⁽¹⁾	(18,963)
Net Debt	97,123
Cash flow from operations ⁽²⁾	35,561
Net debt to cash flow from operations	2.73

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

⁽²⁾ 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, restricted cash recovered 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. The Board of Directors and management 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 includes a bank credit facility of \$120,000,000 consisting of a revolving line of credit 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) within Bonterra's credit facility. 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 annual cash flow by \$1,034,000.

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 currency risk management agreements. The Board of Directors and management recently decided that at least in the near term it will not enter into any currency 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 September 30, 2009 (\$11,175,000) and December 31, 2008 (\$11,753,000), 87 (2008 – 82) percent relates to product sales with international oil and gas companies or receivables from the Canadian Federal or Provincial Governments.

The Company assesses quarterly if there has been any impairment of the financial assets of the Company. During the quarter ended September 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. Payments from the Company's largest accounts receivable counterparties have consistently been received within 30 days. The Sales agreements with these parties are cancellable with 30 days notice.

At September 30, 2009, approximately \$345,000 or 3.1 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 September 30, 2009 is \$165,000 (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	12,700	-	-
Due to related parties	Yes - Liability	22,000	-	-
Long-term bank debt	Yes - Liability	-	81,386	-
Office leases	No	792	1,451	594
Total		35,492	82,837	594

c) Risk management contracts

The Company currently has no outstanding risk management contracts:

13. SUBSEQUENT EVENT – DIVIDENDS

Subsequent to September 30, 2009, the Company declared a dividend of \$0.16 per common share payable on October 30, 2009 to shareholders of record on October 15, 2009 and a dividend of \$0.16 per common share payable on November 30, 2009 to shareholders of record on November 16, 2009.

14. SUBSEQUENT EVENT – DISPOSITION

Subsequent to September 30, 2009, the Company entered into a purchase and sale agreement to divest of a portion of its Shaunavon oil production to Eagle Rock Exploration Ltd. (Eagle Rock) (TSXV: ERX). The proceeds of disposition consist of \$24,000,000 cash and 30,769,200 common shares in Eagle Rock (representing approximately 4.2 percent of the outstanding common shares of that company). The disposition closed on November 6.

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

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Bankers

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The Royal Bank of Canada, Calgary, Alberta
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Stock Listing

The Toronto Stock Exchange
Trading Symbol: BNE

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