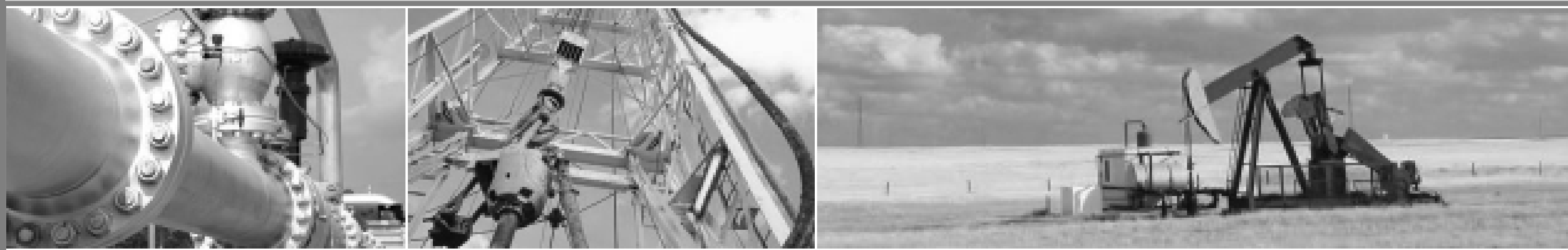
Bonterra Energy Corp.



Third Quarter 2011

HIGHLIGHTS

As at and for the periods ended	Three months		Nine months	
($ 000s except $ per share)	**September 30, 2011**	September 30, 2010 Restated (1)	**September 30, 2011**	September 30, 2010 Restated (1)
FINANCIAL				
Revenue – oil and gas sales	**36,535**	28,332	**119,459**	84,771
Funds flow (2)	**20,815**	19,601	**75,987**	52,865
Per share – basic	**1.08**	1.04	**3.93**	2.82
Per share – diluted	**1.06**	1.01	**3.86**	2.74
Payout ratio (3)	**72%**	63%	**58%**	66%
Cash flow from operations	**21,730**	17,544	**71,229**	49,249
Per share – basic	**1.12**	0.93	**3.69**	2.63
Per share – diluted	**1.10**	0.91	**3.62**	2.56
Payout ratio (3)	**69%**	71%	**62%**	71%
Cash dividends per share (3)	**0.78**	0.66	**2.28**	1.87
Net earnings	**9,384**	10,130	**37,541**	28,116
Per share – basic	**0.49**	0.54	**1.94**	1.50
Per share – diluted	**0.48**	0.52	**1.91**	1.46
Cash netback (4)	**37.35**	29.52	**42.52**	32.40
Capital expenditures and acquisitions net of dispositions	**15,941**	19,227	**42,157**	45,362
Total assets			**354,549**	328,621
Working capital deficiency			**43,362**	20,653
Long-term debt (6)			**72,391**	73,901
Shareholders' equity			**185,908**	182,627
OPERATIONS				
Oil – barrels per day	**3,789**	3,579	**4,069**	3,424
– average price ($ per barrel)	**88.21**	70.99	**91.58**	73.45
NGLs – barrels per day	**340**	311	**350**	281
– average price ($ per barrel)	**63.80**	43.52	**61.56**	46.46
Natural gas – MCF per day	**10,553**	10,674	**10,698**	10,625
– average price ($ per MCF)	**3.91**	3.74	**4.06**	4.25
Total barrels of oil equivalent per day (BOE) (5)	**5,887**	5,669	**6,201**	5,476

(1) The comparative highlights have been restated with the adoption of International Financial Reporting Standards.

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

(3) Cash dividends per share are based on payments made in respect of production months within the period ended.

(4) Cash netback is not a recognized measure under IFRS. Cash netback is oil and gas sales less royalties, production costs, general and administrative costs, interest and other expense on a per BOE basis.

(5) 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.

(6) The unused portion on the Company's revolving credit facility is $47,609,000 as at September 30, 2011 and $46,099,000 as at September 30, 2010.

REPORT TO SHAREHOLDERS

Bonterra Energy Corp. (Bonterra or the Company) is pleased to announce its financial and operational results for the three months and nine months ended September 30, 2011.

Operations

Bonterra's average daily production was 6,201 BOE per day for the first nine months of 2011, an increase of approximately 13.2 percent compared to the first nine months of 2010. Production in the third quarter of 2011 decreased quarter over quarter by 7.6 percent due to an unusual number of delays due to weather, down time from non-operated and operated facilities, pipeline issues and production shut-ins for various reasons. Most of these issues have now been resolved and it is expected that Q4 2011 production will be substantially higher.

The Company continued to focus on and execute its targeted horizontal Cardium drilling program during the quarter and drilled seven gross (5.4 net) horizontal oil wells with eight wells placed on production (including one well drilled in Q2 2011). However, five of these wells were put on production in mid to late September and thus had a negligible effect on third quarter production volumes.

Unseasonably wet weather resulted in three wells that were scheduled to be drilled and completed in the third quarter delayed into the fourth quarter program. Weather delays also significantly slowed the Company's tie-ins during this period. The other major factor which further and negatively impacted Q3 2011 volumes was a number of shut-ins including approximately 1,500 BOE per day shut-in for 21 days during July and August in the 50-12W5M area due to a third party facility shut-down (compressor maintenance) downstream from a Bonterra facility, approximately 50 BOE per day shut-in the Company's Willesden Green area while the Company was drilling in close proximity to an adjacent well and approximately 50 BOE per day shut-in in Saskatchewan for most of the third quarter due to flooding in the area.

Capital expenditures for the first nine months of 2011 totaled $42.4 million net of drilling tax credits related mainly to the drilling, completing, tie-in and equipping of 14 gross (11.1 net) operated Pembina and Willesden Green Cardium horizontal wells, two (0.3 net) non-operated main pool Pembina Cardium horizontal wells, compression facilities in the Pembina and Willesden Green areas, gathering pipeline facilities and one gross (0.13 net) non-operated well in southeast Saskatchewan.

The Company has increased its 2011 capital development budget to the top end of its guidance to approximately $60 million net of drilling credits which includes the drilling of an additional seven gross (5.61 net) operated Cardium horizontal wells and two gross (0.56 net) non-operated Cardium horizontal wells in the fourth quarter of 2011. Two of these wells have already been drilled and are on production while the remaining five will be drilled with three of these expected to be on production before year end.

In addition to the robust fourth quarter drilling program, Bonterra expects additional production increases as a result of resolving current production restrictions at Willesden Green. The Company commenced construction of a permanent tie-in to a low pressure gas gathering system that it has an interest in which should alleviate both downtime and operational issues. The project was expected to be completed in the third quarter of 2011 but again due to weather and regulatory related constraints the project was delayed and is now anticipated to be completed by the end of November, 2011.

Bonterra intends to continue focusing on implementing further cost reduction initiatives on its horizontal drill program through new drilling and completion techniques. For example, in the third quarter the Company used foam water fracs on all wells drilled resulting in significant capital cost savings. The Company's average cost to drill, case, complete, equip and tie-in wells during the third quarter has been

substantially reduced. In addition, these initiatives are expected to not only decrease costs but also improve well productivity and reserve recovery.

Bonterra's full year guidance remains unchanged at 6,200 to 6,500 BOE per day and the Company currently forecasts its 2011 exit rate to range between 6,800 to 6,900 BOE per day.

Bonterra remains highly optimistic with regard to its large inventory of lower-risk, oil opportunities in the Cardium and anticipates that production levels will again demonstrate significant growth in 2012. The Board of Directors and management are currently assessing the 2012 budget and capital development plans and expect to release details during the fourth quarter of 2011.

Financial

Oil and natural gas prices decreased quarter over quarter. The Company's average realized price for crude oil in the third quarter was $88.21 per barrel as compared to $101.30 per barrel in the second quarter of the year. Likewise, natural gas prices decreased to $3.91 per MCF as compared to $4.15 MCF in the prior quarter.

As a result of the lower prices received during the quarter and reduced production volumes, revenue and cash flow from operations decreased 18.4 percent and 14.7 percent, respectively quarter over quarter. However on a nine month basis, the Company recorded significant growth year over year with a 40.9 percent increase in revenue and a 44.6 percent increase in cash flow from operations mainly due to increased production levels and crude oil prices in the first nine months of 2011 compared to the same period in 2010.

The Board of Directors and management have maintained the monthly dividend level to shareholders at $0.26 per share including the recently announced October dividend payable on November 30, 2011. Dividends to shareholders during the first nine months of 2011 totaled $2.28 per share, a 21.9 percent increase from the 2010 level. This represents a payout ratio of 58 percent of funds flow; at the lower end of the Company's guidance of 55 to 70 percent.

The Company's Board and management will continue to take into account production volumes and commodity prices in determining monthly dividend amounts and will consider increasing the dividend level in the near future should crude oil pricing remain strong coupled with anticipated production level increases.

The Company continues to effectively manage its balance sheet strength with a net debt to annualized cash flow from operations ratio of 1.31 times, well within the Company's forecasted range of 1.0 to 1.5 times.

Outlook

Bonterra remains pleased with the progress it has made on its Cardium horizontal program in the Pembina and Willesden Green fields and will continue to pursue the aggressive development of its opportunities in both the Halo areas and main Pembina pool.

There continues to be a great deal of instability in the global economy which has negatively impacted credit and commodity markets. As a result, this lower price environment may provide opportunities for the Company to further grow its asset base through land or corporate acquisitions. Bonterra has historically made acquisitions counter-cyclically and this strategic approach remains a focus for the Company as it continues to look at a number of short, medium and longer term opportunities available.

The Company's conservative capital structure, large drilling inventory and above industry average results with its horizontal drilling program positions the Company well 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 Chairman of the Board

Randy M. Jarock
President and Chief Operating Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following report dated November 9, 2011 is a review of the operations and current financial position for the nine months ended September 30, 2011 for Bonterra Energy Corp. (Bonterra or the Company) and should be read in conjunction with the condensed consolidated financial statements presented under International Financial Reporting Standards (IFRS), including the notes related thereto, and the audited financial statements presented under Canadian generally accepted accounting principles (Canadian GAAP) for the fiscal year ended December 31, 2010, together with the notes related thereto.

A reconciliation of the new and revised standards and interpretations are outlined in Note 17 of the September 30, 2011 condensed consolidated financial statements for the comparative period.

Transition to IFRS from Canadian GAAP

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (CICA Handbook). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (IFRS) and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in the interim financial statements in accordance with International Accounting Standards (IAS) 34 – Interim Financial Reporting (IAS 34) after applying the requirements of International Financial Reporting Standards 1 – First-time Adoption of International Financial Reporting Standards (IFRS 1). In the Management's Discussion and Analysis (MD&A), the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS. The Company's financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS.

IFRS are premised on a conceptual framework similar to Canadian GAAP, however, significant differences exist in certain matters of recognition, measurement and disclosure. On adoption, the Company utilized certain first-time adoption exemptions available resulting in significant changes to the statement of financial position and statement of comprehensive income.

The accounting policies, methods of application and the use of judgements and estimates followed in the preparation of the condensed consolidated financial statements and the required and allowed exemptions from retrospective application of IFRS from the transition date of January 1, 2010 are the same as those followed in the preparation of Bonterra's March 31, 2011 interim condensed consolidated financial statements. Note 21 of our March 31, 2011 condensed consolidated financial statements provides detailed reconciliations between Canadian GAAP and IFRS of shareholders' equity as at January 1, 2010 and December 31, 2010 and of net income for the year ended December 31, 2010. Note 17 of the September 30, 2011 condensed consolidated financial statements provides detailed reconciliations between Canadian GAAP and IFRS of shareholders' equity as at September 30, 2010 and of net income for the three and nine months ended September 30, 2010. These reconciliations provide explanations of each major difference.

Use of Non-IFRS Financial Measures

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

The Company calculates payout ratio by dividing cash dividends to shareholders by cash flow from operating activities, both of which are measures prescribed by IFRS which appear on our statements of cash flows. We

calculate cash netback by dividing various operation and deficit statement items as determined by IFRS by total production on a barrel of oil equivalent basis.

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

	IFRS						
	2011			2010			
Financial ($ 000s except $ per share)	**Q3**	Q2	Q1	Q4	Q3	Q2	Q1
Revenue – oil and gas sales	**36,535**	44,754	38,170	34,208	28,332	29,191	27,248
Cash flow from operations	**21,730**	25,465	24,034	16,989	17,544	16,644	15,061
Per share – basic	**1.12**	1.32	1.25	0.90	0.93	0.89	0.81
Per share – diluted	**1.10**	1.29	1.22	0.88	0.91	0.87	0.78
Cash dividends per share [1]	**0.78**	0.78	0.72	0.68	0.66	0.64	0.57
Payout Ratio [1]	**69%**	59%	58%	76%	71%	72%	70%
Net earnings	**9,384**	14,533	13,624	11,837	10,130	10,388	7,598
Per share – basic	**0.49**	0.75	0.71	0.62	0.54	0.55	0.41
Per share – diluted	**0.48**	0.74	0.69	0.61	0.52	0.54	0.40
Capital expenditures and acquisitions, net of disposals	**15,941**	5,872	20,344	25,318	19,227	10,994	15,141
Total assets	**354,549**	348,097	357,000	347,825	328,621	318,251	316,018
Working capital deficiency	**43,362**	30,823	39,777	17,905	20,653	4,020	16,150
Long-term debt	**72,391**	72,608	70,568	85,386	73,901	78,434	63,097
Shareholders' equity	**185,908**	192,297	192,054	190,173	182,627	182,774	182,620
Operations							
Oil (barrels per day)	**3,789**	4,164	4,258	4,062	3,579	3,607	3,080
NGLs (barrels per day)	**340**	372	338	316	311	267	265
Natural gas (MCF per day)	**10,553**	11,024	10,517	10,214	10,674	11,157	10,038
Total BOE per day [2]	**5,887**	6,373	6,350	6,080	5,669	5,733	5,018

	Canadian GAAP 2009			
Financial ($ 000s except $ per share)	Q4	Q3	Q2	Q1
Revenue – oil and gas sales	24,946	20,965	20,501	19,300
Cash flow from operations	13,673	9,350	9,238	6,632
Per share – basic	0.76	0.50	0.52	0.38
Per share – diluted	0.75	0.50	0.52	0.38
Cash dividends per share [1]	0.50	0.44	0.40	0.36
Payout Ratio [1]	66%	87%	77%	94%
Net earnings	52,136	5,790	4,544	6,093
Per share – basic	2.88	0.32	0.26	0.35
Per share – diluted	2.85	0.32	0.26	0.35
Capital expenditures and acquisitions, net of disposals	(16,976)	17,660	2,255	2,701
Total assets	293,987	273,543	258,393	260,732
Working capital deficiency	10,162	14,455	13,989	14,909
Long-term debt	59,823	81,386	71,573	89,383
Shareholders' equity	118,874	74,025	72,332	56,377
Operations				
Oil and NGLs (barrels per day)	3,182	3,084	3,029	3,268
Natural gas (MCF per day)	10,193	10,881	11,551	11,877
Total BOE per day [2]	4,881	4,898	4,954	5,245

[1] Cash dividends per share are based on payments made in respect of production months within the quarter.
[2] 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	
	September 30, 2011	June 30, 2011	September 30, 2010	**September 30, 2011**	September 30, 2010
Crude oil (barrels per day)	**3,789**	4,164	3,579	**4,069**	3,424
NGLs (barrels per day)	**340**	372	311	**350**	281
Natural gas (MCF per day)	**10,553**	11,024	10,674	**10,698**	10,625
Average BOE per day	**5,887**	6,373	5,669	**6,201**	5,476

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 2011 increased 13.2 percent to 6,201 BOE per day compared to 5,476 BOE per day for the same period one year ago. The increase in production volumes is due to Bonterra's continued success from its Cardium horizontal oil drilling program, partially offset by shut-in production along with normal production declines.

Production volumes for Q3 2011 decreased by 7.6 percent to 5,887 BOE per day compared to Q2 2011. The production decrease was due to 21 days of shut-in production for compressor upgrades by the operator of a major plant. It is estimated that approximately 1,500 BOE per day (1,210 bbls of crude oil and liquids per day and 1,715 MCF per day of natural gas) was shut-in during the months of July and August. The Company also experienced shut-in production when consecutive wells were drilled in the Company's multi well pad drilling program and for workovers in the Willesden Green area. Higher than normal precipitation in the month of July caused additional production issues.

The majority of the operating issues experienced at our Willesden Green property have been resolved however productivity continues to be restricted by high operating line pressures. To alleviate this production restriction, the Company commenced construction of a permanent tie-in to a low pressure gas gathering system in which it has an ownership interest. The project was expected to be completed in the third quarter but due to weather and regulatory constraints, the project is now anticipated to be completed by the end of November, 2011.

The Company drilled 14 gross (11.1 net) Pembina and Willesden Green Cardium horizontal wells for the nine months ended September 30, 2011, of these wells 7 gross (5.4 net) wells were drilled in the third quarter of 2011. All but one of the 14 wells was placed on production by the end of Q3 2011 with the remaining horizontal well placed on production subsequent to quarter-end in October. Unseasonably wet weather resulted in three fewer wells drilled in the third quarter and significant delays on tie-ins. Of the seven wells drilled, five were brought on production in September, of which three were brought on production in the latter half of the month. The Company expects to drill and tie-in between 4 gross (3.2 net) to 5 gross (4.2 net) Pembina and Willesden Green Cardium horizontal wells in the fourth quarter of 2011. The Company anticipates exit production for 2011 to be between 6,800 to 6,900 BOE per day, subject to timing of tying-in new wells and few facility or pipeline restrictions.

Oil and Gas Sales, Net of Royalties

	Three months ended			Nine months ended	
($ 000s)	**September 30, 2011**	June 30, 2011	September 30, 2010	**September 30, 2011**	September 30, 2010
Revenue – oil and gas sales	**36,535**	44,754	28,332	**119,459**	84,771
Less:					
Crown royalties	**3,428**	3,542	1,907	**9,323**	5,470
Freehold, gross overriding and other royalties	**1,725**	1,248	1,065	**3,984**	3,223
Total royalties	**5,153**	4,790	2,972	**13,307**	8,693
Oil and gas sales, net of royalties	**31,382**	39,964	25,360	**106,152**	76,078
Average Realized Prices ($):					
Crude oil (per barrel)	**88.21**	101.30	70.99	**91.58**	73.45
NGLs (per barrel)	**63.80**	65.19	43.52	**61.56**	46.46
Natural gas (per MCF)	**3.91**	4.15	3.74	**4.06**	4.25
Royalties – percentage of revenue	**14.1**	10.7	10.5	**11.1**	10.3
Royalties $ per BOE	**9.51**	8.26	5.71	**7.86**	5.81

Revenue from petroleum and natural gas sales increased by $34,688,000 in the first nine months of 2011, a 41 percent improvement from the corresponding period in 2010, due to a 13 percent increase in production and a 28 percent increase in crude oil and NGL prices. This was partially offset by a 4 percent reduction in natural gas pricing. Quarter over quarter saw a decrease in revenues of $8,219,000 mainly due to shut-in production related to facility constraints and a decrease in commodity prices.

The Company's product split on a revenue basis for the first three quarters of 2011 is approximately 90 percent weighted towards crude oil and NGLs. This ratio will likely increase as the Company continues to develop its Pembina and Willesden Green Cardium (mainly oil) properties and also the likely pricing scenario where oil prices will remain high relative to natural gas prices.

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 7.8 percent for the nine months ended September 30, 2011 compared to 6.5 percent for the comparable period one year ago. Quarter over quarter saw Crown royalties increase to 9.4 percent in Q3 2011 compared to 7.9 percent for Q2 2011. Crown royalty increases for the first nine months of 2011 compared to the same period in 2010 were due to increased volumes, commodity prices and some of the previously drilled horizontal Cardium wells no longer being eligible for the initial five percent royalty rate when accumulated production thresholds were reached. The quarter over quarter decrease in crown royalties was due to decreased production and commodity prices, partially offset by increased royalty rates as more of the previously drilled horizontal Cardium wells reached the production threshold in the third quarter of 2011.

The Company's average non-crown royalty rate totaled 3.3 percent of oil and gas sales for the nine months ended September 30, 2011 compared to 3.8 percent one year ago. The increase of $761,000 in non-crown royalties for the first nine months of 2011 compared to 2010 is primarily due to increased production and commodity prices. Quarter over quarter saw an increase to 4.7 percent for Q3 2011 compared to 2.9 percent for Q2 2011. The increase in non-crown royalties is primarily due to a gross overriding royalty adjustment and an increase in the number of freehold wells, which was partially offset by lower commodity prices.

Other Income

($ 000s)	Three months ended September 30, 2011	June 30, 2011	September 30, 2010	Nine months ended September 30, 2011	September 30, 2010
Gain on sale of property	**158**	-	700	**162**	6,558
Gain on sale of investments	**272**	-	3,536	**2,126**	3,553
Investment income	**8**	13	3	**22**	26
Administrative income	**83**	83	91	**248**	316
	521	96	4,330	**2,558**	10,453

During the first nine months of 2011 the Company disposed of a portion of its investments. Gross proceeds from the sales were $3,991,000 resulting in an accounting gain of $2,126,000, most of which occurred in the first quarter of 2011. During the same nine month period in 2010, the Company disposed of a portion of its investments for gross proceeds of $4,405,000 resulting in an accounting gain of $3,553,000, most of which occurred in the third quarter of 2010. The market value of the investments held by the Company is in excess of $7,000,000 at September 30, 2011.

In February 2010, the Company disposed of its Southeast Saskatchewan Pinto property for cash proceeds of $5,534,000 resulting in an accounting gain of $5,858,000 and in the third quarter of 2010, the Company disposed of non-producing land for proceeds of $700,000. The Company had no capital costs associated with this land.

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

Production Costs

($ 000s except $ per BOE)	Three months ended September 30, 2011	June 30, 2011	September 30, 2010	Nine months ended September 30, 2011	September 30, 2010
Production costs	**9,159**	9,479	8,070	**26,963**	21,753
$ per BOE	**16.91**	16.35	15.46	**15.93**	14.55

Total production costs for the first nine months of 2011 have increased by $5,210,000 over the same period one year ago mainly due to higher production and increased costs related to gas compression and processing at third party facilities. The Company has experienced weather and regulatory related delays with a new gas and oil tie-in at Willesden Green, which when completed in Q4 will reduce gathering and processing costs. The Company also experienced higher oil trucking costs due to increased production and increased road maintenance costs due to above normal precipitation levels. Delays associated with tying in oil facilities at Warburg and Willesden Green added to the increased trucking costs. The tie-ins to the Warburg facility were completed in September and the Willesden Green tie-in is expected to be completed by the end of November 2011. In addition, during the first nine months of 2011, the Company experienced higher electrical rates, higher than expected facility start-up costs, previous period adjustments and general increases in service costs compared to the same period in 2010. On a per BOE basis, production costs have increased by approximately 9 percent.

Quarter over quarter saw a decrease in production costs primarily due to the shut-in production. This was partially offset by an increase in electrical rates due to several power plants being down, increased service rig work and road and lease maintenance as the wet weather reduced access to well and facility locations.

It is anticipated, these costs will be reduced in Q4 2011 on a BOE basis when the Willesden Green facility and pipeline project is completed and production volumes increase.

Approximately half of the Company's production comes primarily from low productivity wells. These wells generally have higher productions costs on a unit-of-production basis as costs such as municipal taxes, surface leases, power and personnel costs are not variable with production volumes. In the future, the Company's horizontal drilling program, improved tie-ins and upgraded facilities should lower production costs on a unit-of-production basis.

The Company continues to monitor capital and operating spending in order to realize greater efficiency in its spending. Access to quality equipment, services and contractors will be a primary concern as industry activity increases in the future leading to an overall increase in service costs.

General and Administration (G&A) Expense

	Three months ended			Nine months ended	
($ 000s except $ per BOE)	**September 30, 2011**	June 30, 2011	September 30, 2010	**September 30, 2011**	September 30, 2010
Employee compensation expense	**1,027**	1,273	1,030	**3,560**	3,175
Office and administration expense	**252**	446	267	**1,273**	1,079
	1,279	1,719	1,297	**4,833**	4,254
$ per BOE	**2.36**	2.96	2.48	**2.85**	2.85

Total G&A expense increased 14 percent to $4,833,000 for the nine months ended September 30, 2011 from $4,254,000 in the same period in 2010, however it remains unchanged on a per BOE basis.

The increase in employee compensation expense of $385,000 for the nine months ended September 30, 2011 compared to the same period one year ago was primarily due to annual salary adjustments and an increase in accrued bonuses due to higher net earnings before income taxes. The Company has a bonus plan in which the bonus pool consists of three percent of earnings before income taxes. The bonus pool is determined entirely by this three percent of earnings as the Company firmly believes that tying employee compensation (including the use of stock options) to the performance of the Company clearly aligns the interest of the employees to that of the shareholders.

Office and administration costs consist primarily of professional services such as legal, engineering, accounting, computer services, consulting fees and bank charges. The increase in office and administration expense for the nine months ended September 30, 2011 related primarily to increased technical consulting fees, regulatory filing and printing fees and an increase in the provision in the allowance for doubtful accounts, compared to the same period in 2010. This was partially offset by decreased bank charges for the credit facility renewal in the second quarter of 2011.

Quarter over quarter office and administration expense saw a decrease of $194,000 related to decreased bank charges, computer services and a reduction in regulatory filing and printing fees.

Finance Costs

	Three months ended			Nine months ended	
($ 000s except $ per BOE)	**September 30, 2011**	June 30, 2011	September 30, 2010	**September 30, 2011**	September 30, 2010
Interest on long-term debt	**502**	654	561	**1,725**	1,590
Other interest	**305**	302	140	**905**	363
Interest expense	**807**	956	701	**2,630**	1,953
$ per BOE	**1.49**	1.65	1.35	**1.55**	1.31
Unwinding of the discounted value of decommissioning liabilities	**205**	204	216	**615**	642
Total finance costs	**1,012**	1,160	917	**3,245**	2,595

Interest on long-term debt increased for the first nine months of 2011 over the same period in 2010 primarily due to an increase in the Company's overall average outstanding debt balance during the comparable nine month period. The debt increase results mainly from higher capital expenditures (net of disposals) in the last half of 2010.

Other interest relates to amounts paid to related parties (see related party transactions) and the $15,000,000 subordinated promissory note from a private investor, which the Company entered into on October 4, 2010.

The terms of the Subordinated Promissory Note are that it bears interest at three percent, is not callable by the investor prior to January 4, 2012 at which time it will be a demand note until its maturity of April 4, 2012, and can be repaid at the option of the Company at any time. Security consists of a floating demand debenture totaling $15,000,000 over all of the Company's assets and is subordinated to any and all claims in favor of the syndicate of senior lenders providing credit facilities to the Company.

As of September 30, 2011 and December 31, 2010, the Company has a bank facility consisting of $100,000,000 syndicated revolving credit facility and a $20,000,000 non-syndicated revolving credit facility. Amounts drawn under the facility at September 30, 2011 were $72,391,000 (December 31, 2010 - $70,386,000). Amounts borrowed under the credit facility at September 30, 2011 bear interest at a floating rate based on the applicable Canadian prime rate or Banker's Acceptance rate, plus between 0.75 percent and 3.50 percent, depending on the type of borrowing and the Company's consolidated total funded debt to consolidated cash flow. The terms of the syndicated revolving credit facility provided that the loan is revolving to April 26, 2012 and with a maturity date of April 25, 2013 and is subject to annual review. The revolving credit facility has no fixed terms of repayment.

The amount available for borrowing under the credit facilities is reduced by outstanding letters of credit. Letters of credit totaling $400,000 were issued September 30, 2011 (December 31, 2010 - $285,000). Security for credit facilities consists of various and floating demand debentures totaling $200,000,000 over all of the Company's assets and general security agreement with first ranking over all personal and real property.

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

- The Company is required to not exceed $120,000,000 in consolidated debt (includes working capital but excludes related party amounts and subordinated promissory note).

- Dividends paid in the current quarter and the three previous quarters shall not exceed 80 percent of the previous four quarters' cash flow as defined under IFRS excluding adjustments for non-cash working capital items.

At September 30, 2011, the Company is in compliance with all covenants.

Share-Based Payments

	Three months ended			Nine months ended	
($ 000s)	**September 30, 2011**	June 30, 2011	September 30, 2010	**September 30, 2011**	September 30, 2010
	815	772	142	**1,732**	426

Share-based payments are a statistically calculated value representing the estimated expense of issuing employee stock options. The Company records a compensation expense over the vesting period based on the fair value of options granted to employees, directors and consultants. Based on currently outstanding options, the Company anticipates that an expense of approximately $798,000 will be recorded for the balance of 2011, $2,582,000 for 2012, $154,000 for 2013 and $16,000 for 2014.

During the first nine months of 2011, the Company issued 623,000 stock options to employees, directors and consultants with an estimated fair value of $5,122,000 ($8.22 per option). The fair value of the options granted has been estimated using the Black-Scholes option pricing model, assuming a weighted risk free interest rate of 1.9 percent, expected weighted average volatility of 32.2 percent, expected weighted average life of 2.0 years and an annual dividend rate based on the dividends paid to the shareholders during the period. Also, 40,000 options were forfeited during the second quarter causing $35,000 of previously recorded share-based payments expense to be reversed.

Depletion and Depreciation

	Three months ended			Nine months ended	
($ 000s)	**September 30, 2011**	June 30, 2011	September 30, 2010	**September 30, 2011**	September 30, 2010
	6,209	6,544	6,276	**19,232**	16,355

Capital costs for oil and gas properties that result in the addition of reserves are depleted using the unit-of-production basis by field over their total proved reserve life. For production facility and equipment expenditures such as well and production processing equipment, the Company uses a 10 percent declining basis for depreciation calculation.

Provision for depletion and depreciation increased for the nine month period ended September 30, 2011 over September 30, 2010 by 18 percent. The increase in the depletion amount was due primarily to increased average cost of reserves resulting primarily from increased production volumes and from the lower percentage of proved reserves currently assigned to the Company's new Willesden Green and Pembina Cardium horizontal wells. The proved reserves assigned may be modified in the future when there is a longer period of production history. The Company incurred capital costs of approximately $9.02 (September 30, 2010 - $8.28) per total proved BOE of reserves based on the December 31, 2010 independent engineering report.

Taxes

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

($ 000s)	Rate of Utilization (%)	Amount
Undepreciated capital costs	20-100	35,570
Eligible capital expenditures	7	6,978
Share issue costs	20	356
Canadian oil and gas property expenditures	10	19,837
Canadian development expenditures	30	124,138
Canadian exploration expenditures	100	11,174
Income tax losses carried forward [1]	100	209,652
		407,705

[1] Federal income tax losses carried forward expire in the following years; 2026 - $44,606,000, 2027 - $117,189,000, 2028 - $34,726,000, 2029 - $13,131,000.

The Company also has $27,670,000 (December 31, 2010 - $27,670,000) remaining of investment tax credits that expire in the following years; 2019 - $3,469,000, 2020 - $3,059,000, 2021 - $4,667,000, 2022 - $3,909,000, 2023 - $3,155,000, 2024 - $1,995,000, 2025 - $2,257,000, 2026 - $2,405,000, 2027 - $2,009,000, 2028 - $745,000.

In addition to the above, the Company has $137,514,000 (December 31, 2010 - $139,773,000) of capital loss carry forwards which can only be claimed against taxable capital gains.

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

Net Earnings

	Three months ended			Nine months ended	
($ 000s except $ per share)	**September 30, 2011**	June 30, 2011	September 30, 2010	**September 30, 2011**	September 30, 2010
Net earnings	**9,384**	14,533	10,130	**37,541**	28,116
$ per share – basic	**0.49**	0.75	0.54	**1.94**	1.50
$ per share – diluted	**0.48**	0.74	0.52	**1.91**	1.46

Net earnings increased in the first nine months of 2011 by $9,425,000 or 34 percent from the corresponding 2010 period. Increased net earnings resulted primarily from higher crude oil prices and increased production volumes. This increase was partially offset by higher crown royalties, production costs, depletion and depreciation expense and a gain on disposal in the prior period relating to the sale of the Pinto producing property. The Company returned in excess of 31 percent of its gross realized revenues in net earnings in the nine month period. The Company's low capital costs combined with the Company's lower production decline rates should allow for continued positive earnings even in a low commodity price environment. The decrease in net earnings for Q3 2011 compared to Q2 2011 is the result of lower production volumes and decreased commodity pricing, which was partially offset by a lower provision for deferred income taxes.

Other Comprehensive Income

Other comprehensive income for the first nine months of 2011 consists of an unrealized loss before tax on investments (including investments in a related party) of $857,000 relating to a decrease in the investments' fair value (September 30, 2010 – unrealized gain of $5,960,000 relating to an increase in the investments' fair value). The Company also disposed of a portion of these investments which are comprised of marketable securities in the first nine months of 2011 for a realized gain before tax of $2,126,000 (September 30, 2010 - $3,553,000). Realized gains decrease other comprehensive income, as the gains are transferred to net earnings. Other comprehensive income varies from net earnings by unrealized changes in the fair value of Bonterra's holdings of investments including the investment in related party, net of tax.

Cash Flow from Operations

	Three months ended			Nine months ended	
($ 000s except $ per share)	**September 30, 2011**	June 30, 2011	September 30, 2010	**September 30, 2011**	September 30, 2010
Cash flow from operations	**21,730**	25,465	17,544	**71,229**	49,249
$ per share – basic	**1.12**	1.32	0.93	**3.69**	2.63
$ per share – diluted	**1.10**	1.29	0.91	**3.62**	2.56

The first nine months of 2011 cash flow from operations increased $21,980,000 or 45 percent compared to the first nine months of 2010 primarily due to higher crude oil and NGL prices and increased production. The increase is partially offset by increased production costs and crown royalties. The quarter over quarter decrease of $3,735,000 or 15 percent was due primarily to decreased production and commodity prices partially offset by an increased change in non-cash working capital.

Cash Netback

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

	Three months ended			Nine months ended	
$ per BOE	**September 30, 2011**	June 30, 2011	September 30, 2010	**September 30, 2011**	September 30, 2010
Production volumes (BOE)	**541,595**	579,929	521,601	**1,692,983**	1,494,975
Gross production revenue	**$ 67.46**	$ 77.17	$ 54.32	**$ 70.56**	$ 56.70
Royalties	**(9.51)**	(8.26)	(5.71)	**(7.86)**	(5.81)
Field operating costs	**(16.91)**	(16.35)	(15.46)	**(15.93)**	(14.55)
Field netback	**41.04**	52.56	33.15	**46.77**	36.34
General and administrative	**(2.36)**	(2.96)	(2.48)	**(2.85)**	(2.85)
Interest and other	**(1.33)**	(1.49)	(1.15)	**(1.40)**	(1.09)
Cash netback	**$ 37.35**	$ 48.11	$ 29.52	**$ 42.52**	$ 32.40

Related Party Transactions

The Company holds 689,682 (December 31, 2010 – 689,682) common shares in Geomark Exploration Ltd. (Geomark) which have a fair market value as of September 30, 2011 of $552,000 (December 31, 2010 - $814,000). Geomark is a publically traded minerals exploration company listed on the TSX Venture Exchange under the symbol GME. The Company has common directors and management with Geomark. In addition, Geomark owns 204,633 (December 31, 2010 – 204,633) common shares in Bonterra.

Effective July 6, 2010, Comaplex Minerals Corp. (Comaplex) (a company with common management and directors) was acquired by Agnico-Eagle Mines Limited (Agnico-Eagle). In exchange for Bonterra's 689,682 common shares in Comaplex, the Company received 689,682 shares in Geomark and 108,693 common shares in Agnico-Eagle (value of the remaining shares are included in Investments on the balance sheet). The common shares of Agnico-Eagle trade on the Toronto Stock Exchange under the symbol AEM and the common shares of Geomark trade on the TSX Venture Exchange under the symbol GME. The investment in Geomark represents 1.3 percent ownership in the outstanding common shares of Geomark.

Geomark paid a management fee to the Company of $202,500 (September 30, 2010 - $249,000 paid by Geomark and Comaplex). Geomark 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 and chief financial officer duties), accounting services, oil and gas administration and office administration. All services performed are charged at estimated fair value. At September 30, 2011, Geomark owed the Company $33,000 (December 31, 2010 - $35,000).

As a result of the acquisition by Agnico-Eagle of Comaplex on July 6, 2010, the $12,000,000 loan previously held by Comaplex was transferred to Geomark and is repayable by the Company under the same terms. In the third quarter of 2010, Geomark loaned Bonterra an additional $8,000,000. As of September 30, 2011, Geomark has loaned the Company a total of $20,000,000 (December 31, 2010 – $20,000,000). At September 30, 2011, the loan is unsecured, bears interest at Canadian chartered bank prime less 5/8th of a percent and has no set repayment terms. The loan cannot be repaid, or demanded to be paid by Geomark, unless the Company has sufficient available borrowing limits under the Company's credit facility. Interest paid on this loan during the first nine months of 2011 was $355,000 (September 30, 2010 - $193,000 paid to Geomark and Comaplex). This loan results in a substantial benefit to Bonterra and to Geomark. The interest paid to Geomark by Bonterra is substantially lower than bank interest and for Geomark, the interest earned is substantially higher than Geomark would receive by investing in bank instruments such as BAs or GICs.

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 $45,000 (September 30, 2010 - $67,500). Services provided by the Company include executive services (chief executive officer, president and chief financial officer 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, 2011, the Company had an account receivable from Pine Cliff of $1,000 (December 31, 2010 – $1,000).

As of September 30, 2011, the Company's CEO and major shareholder has loaned the Company $12,000,000 (December 31, 2010 - $12,000,000). At September 30, 2011, the loan is unsecured, bears interest at Canadian chartered bank prime less 5/8th of a percent and has no set repayment terms. The loan can only be repaid should the Company have sufficient available borrowing limits under the Company's credit facility. Interest paid on this loan during the first nine months of 2011 was $213,000 (2010 - $170,000). This loan results in a substantial benefit to Bonterra as the interest paid to the CEO by Bonterra is lower than bank interest.

On November 1, 2011, the Company entered into a floating charge debenture to provide security in favor of the Geomark loan and the CEO and major shareholder loan. Security under the debentures is over all of the Company's assets and is subordinated to any and all claims in favour of the syndicate of senior lenders providing credit facilities to the Company.

Liquidity and Capital Resources

During the first nine months of 2011, the Company incurred capital costs of $42,395,000 (2010 - $51,596,000) net of drilling credits. The costs relate primarily to the drilling, completing, tie-in and equipping of 14 gross (11.1 net) Pembina and Willesden Green Cardium horizontal wells.

The Company currently has plans to spend $60,000,000 on its 2011 Pembina Cardium horizontal well program and non-operated capital programs. Drilling in the third quarter resulted in seven wells (5.4 net) drilled and all but one (0.68 net) tied-in and on production by the end of the third quarter. Bonterra anticipates funding the 2011 capital program out of cash flow, proceeds from the exercise of employee stock options, sale of investments and, if necessary, the Company's unused line of credit.

As of September 30, 2011 and December 31, 2010, the Company has a bank facility consisting of a $100,000,000 syndicated revolving credit facility and a $20,000,000 non-syndicated revolving credit facility. Amounts drawn under these facilities at September 30, 2011 were $72,391,000 (December 31, 2010 - $70,386,000). The interest rates on the outstanding debt as of September 30, 2011 were 3.8 percent and 3.0 percent on the Company's Canadian prime rate loan and Banker's Acceptances, respectively. For information related to interest rate levels and material covenants please refer to the discussion under Interest Expense. Going forward, Bonterra remains committed to maintaining conservative financial management, whereby, capital expenditure ranges and dividend payments annually will not result in the bank loan to cash flow ratio exceeding 1.5 to 1.

Shareholders' Equity

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

Issued	Number	Amount ($ 000s)
Common Shares		
Balance, January 1, 2011	19,219,541	135,030
Options exercised	130,300	2,649
Transfer of contributed surplus to share capital		149
Balance, September 30, 2011	19,349,841	137,828

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

The Company provides a stock option plan for its directors, officers, employees and consultants. Under the plan, the Company may grant options for up to 1,934,984 (December 31, 2010 – 1,921,954) common shares. The exercise price of each option granted will not be lower than the market price of the common shares on the date of grant and the option's maximum term is five years.

A summary of the status of the Company's stock option plan as of September 30, 2011 and December 31, 2010, and changes during the nine month and twelve month periods ended on those dates is presented as follows:

	September 30, 2011		December 31, 2010	
	Options	**Weighted-Average Exercise Price**	Options	Weighted-Average Exercise Price
Outstanding at beginning of period	**747,000**	**$ 20.56**	1,330,900	$ 20.36
Options granted	**623,000**	**58.08**	36,000	36.98
Options exercised	**(130,300)**	**20.33**	(599,900)	20.63
Options cancelled	**-**	**-**	(20,000)	34.66
Options forfeited	**(40,000)**	**20.50**	-	-
Outstanding at end of period	**1,199,700**	**$ 40.07**	747,000	$ 20.56
Options exercisable at end of period	**91,200**	**$ 20.07**	255,500	$ 20.50

The following table summarizes information about options outstanding at September 30, 2011:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number outstanding at September 30, 2011	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at September 30, 2011	Weighted-average exercise price
$ 14.90	18,000	1.2 years	$ 14.90	7,000	$ 14.90
20.50	552,700	1.0 years	20.50	84,200	20.50
48.00 – 52.00	12,000	1.6 years	50.11	-	-
58.00 – 59.00	617,000	2.2 years	58.14	-	-
$ 14.90 – $ 59.00	1,199,700	1.6 years	$ 40.07	91,200	$ 20.07

Dividend Policy

For the nine months ended September 30, 2011, Bonterra paid dividends of $43,649,000 ($2.26 per share) compared to $34,305,000 ($1.83 per share) in the same period in 2010. Bonterra's dividend policy is regularly monitored and is dependent upon production, commodity prices, funds from operations, debt levels and capital expenditures. With its large inventory of undrilled locations, Bonterra continues to be well positioned to provide its shareholders a combination of sustainable growth and meaningful dividend income.

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

Management is responsible for establishing and maintaining Disclosure Controls and Procedures (DC&P) and adequate Internal Control over Financial Reporting (ICFR). The Company has conducted a review as of September 30, 2011 and concluded that the Company's DC&P and system of ICFR as defined under NI 52-109 are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The control framework the Company used to design its ICFR was in accordance with the Committee of Sponsoring Organizations of the Treadway Commission (COSO). All internal control systems, no matter how well designed, have inherent limitations. These systems, therefore, provide reasonable but not absolute assurance that financial information is accurate and complete.

In its review, the Company identified a material weakness which is caused by the limited number of finance staff at the Company. This limited staff situation does not permit an adequate segregation of duties and could lead to material weaknesses in internal control over financial reporting.

The Company believes this weakness is mitigated by: the active involvement of senior management and the Board of Directors in the affairs of the Company; the 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 and the Board of Directors; a whistle blowing policy and the performance of audits and quarterly reviews of financial statements by the Company's external auditors.

This material weakness has been discussed with the Audit Committee. The situation is being rectified as the Company grows and additional staff is hired that has experience in accounting and internal control over financial reporting.

Management believes that, through implementation of these measures, the Company will address the weakness identified above. It will monitor the effectiveness of these measures, and the internal control over financial reporting on an ongoing basis and continue to assess, and where appropriate, take additional steps to strengthen its internal control over financial reporting.

Financial Reporting Update

Recent Accounting Pronouncements
Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet assessed the impact, if any, that the new amended standards will have on its financial statements or whether to early adopt any of the new requirements.

IFRS 9 "Financial Instruments"

The result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

IFRS 10 "Consolidated Financial Statements"

Replaces Standing Interpretations Committee 12, "Consolidation - Special Purpose Entities" and the consolidation requirements of IAS 27 "Consolidated and Separate Financial Statements". The new standard replaces the existing risk and rewards based approaches and establish control as the determining factor

when determining whether an interest in another entity should be included in the consolidated financial statements.

IFRS 11 “Joint Arrangements”

Replaces IAS 31 “Interests in Joint Ventures” along with amending IAS 28 “Investment in Associates”. The new standard focuses on the rights and obligations of an arrangement, rather than its legal form. The standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted.

IFRS 12 “Disclosure of Interests in Other Entities”

Provides comprehensive disclosure requirements on interests in other entities, including joint arrangements, associates, and special purpose vehicles. The new disclosure requires information that will assist financial statement users in evaluating the nature, risks and financial effects of an entity’s interest in subsidiaries and joint arrangements.

IFRS 13 "Fair Value Measurement"

Provides a common definition of fair value within IFRS. The new standard provides measurement and disclosure guidance and applies when IFRS requires or permits the item to be measured at fair value, with limited exceptions. This standard does not determine when an item is measured at fair value and as such does not require new fair value measurements.

Additionally, as of January 1, 2013, Bonterra will be required to adopt amendments to IAS 1 “Presentation of Financial Statements” which will require companies to group together items within other comprehensive income that may be reclassified to the net earnings section of the comprehensive income statement. Bonterra does not expect a material impact as a result of the amendment.

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

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The information provided in this report, including the financial statements, is the responsibility of management. 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 judgments and have been properly reflected in the accompanying financial statements.

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

The audit committee has reviewed these 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.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at (unaudited) ($ 000s)	Note	September 30, 2011	December 31, 2010 (Note 17)
Assets			
Current			
Accounts receivable		**15,726**	17,345
Crude oil inventory		**493**	487
Prepaid expenses		**2,422**	1,631
Investments		**6,885**	11,471
		25,526	30,934
Investment in related party	4	**552**	814
Exploration and evaluation assets	5	**2,855**	4,595
Property, plant and equipment	6	**261,879**	233,026
Investment tax credit receivable	7	**27,670**	27,670
Deferred tax asset	7	**36,067**	50,786
		354,549	347,825
Liabilities			
Current			
Accounts payable and accrued liabilities		**21,888**	16,839
Due to related parties	8	**32,000**	32,000
Subordinated promissory note	9	**15,000**	-
		68,888	48,839
Subordinated promissory note	9	**-**	15,000
Bank debt	10	**72,391**	70,386
Decommissioning liabilities		**27,362**	23,427
		168,641	157,652
Commitments and contingencies	15		
Shareholders' equity			
Share capital	11	**137,828**	135,030
Contributed surplus		**4,718**	3,135
Accumulated other comprehensive income		**3,164**	5,702
Retained earnings		**40,198**	46,306
		185,908	190,173
		354,549	347,825

See accompanying notes to these condensed consolidated financial statements.

Condensed Consolidated Statements of Comprehensive Income

For the periods ended September 30 (unaudited)		Three Months		Nine Months	
($ 000s, except $ per share)	Note	**2011**	2010 (Note 17)	**2011**	2010 (Note 17)
Revenue					
Oil and gas sales, net of royalties	12	**31,382**	25,360	**106,152**	76,078
Other income	13	**521**	4,330	**2,558**	10,453
		31,903	29,690	**108,710**	86,531
Expenses					
Production costs		**9,159**	8,070	**26,963**	21,753
Office and administration		**252**	267	**1,273**	1,079
Employee compensation		**1,027**	1,030	**3,560**	3,175
Finance costs	3	**1,012**	917	**3,245**	2,595
Share-based payments		**815**	142	**1,732**	426
Depletion and depreciation		**6,209**	6,276	**19,232**	16,355
		18,474	16,702	**56,005**	45,383
Earnings before income taxes		**13,429**	12,988	**52,705**	41,148
Income taxes					
Current		**-**	-	**-**	-
Deferred	7	**4,045**	2,858	**15,164**	13,032
		4,045	2,858	**15,164**	13,032
Net earnings for the period		**9,384**	10,130	**37,541**	28,116
Other comprehensive income					
Unrealized gains (losses) on investments		**(1,729)**	1,782	**(857)**	5,960
Deferred taxes on unrealized losses (gains) on investments		**229**	(245)	**163**	(816)
Realized gains on investments transferred to net earnings		**(272)**	(3,536)	**(2,126)**	(3,553)
Deferred taxes on realized gains on investments transferred to net earnings		**36**	494	**282**	497
Other comprehensive income (loss) for the period		**(1,736)**	(1,505)	**(2,538)**	2,088
Comprehensive income for the period		**7,648**	8,625	**35,003**	30,204
Net earnings per share - Basic	11	**0.49**	0.54	**1.94**	1.50
Net earnings per share – Diluted	11	**0.48**	0.52	**1.91**	1.46
Comprehensive income per share - Basic	11	**0.40**	0.46	**1.81**	1.61
Comprehensive income per share – Diluted	11	**0.39**	0.45	**1.78**	1.57

See accompanying notes to these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the periods ended September 30 (unaudited)	Three Months		Nine Months	
($ 000s)	**2011**	2010	**2011**	2010
Operating Activities				
Earnings before income taxes	**13,429**	12,988	**52,705**	41,148
Items not affecting cash				
Share-based payments	**815**	142	**1,732**	426
Depletion and depreciation	**6,209**	6,276	**19,232**	16,355
Unwinding of the discounted value of decommissioning liabilities	**205**	216	**615**	642
Gain on sale of property	**(158)**	(700)	**(162)**	(6,558)
Gain on sale of investments	**(272)**	(3,536)	**(2,126)**	(3,553)
Investment income	**(8)**	(14)	**(22)**	(26)
Interest expense	**807**	701	**2,630**	1,953
Change in non-cash working capital				
Accounts receivable	**753**	669	**(908)**	689
Crude oil inventory	**(54)**	(94)	**(33)**	(67)
Prepaid expenses	**(172)**	(216)	**(791)**	348
Accounts payable and accrued liabilities	**1,187**	2,269	**1,667**	(291)
Restricted cash	**-**	-	**-**	812
Decommissioning expenditures	**(204)**	(456)	**(680)**	(676)
Interest paid	**(807)**	(701)	**(2,630)**	(1,953)
Cash provided by Operating Activities	**21,730**	17,544	**71,229**	49,249
Financing Activities				
Increase (decrease) in bank debt	**(217)**	(4,533)	**2,005**	14,078
Due to related parties	**-**	8,500	**-**	8,500
Stock option proceeds	**235**	3,498	**2,649**	5,758
Dividends	**(15,087)**	(12,412)	**(43,649)**	(34,305)
Cash used in Financing Activities	**(15,069)**	(4,947)	**(38,995)**	(5,969)
Investing Activities				
Investment income received	**8**	14	**22**	26
Exploration and evaluation expenditures	**-**	-	**(252)**	-
Property, plant and equipment expenditures	**(16,171)**	(19,927)	**(42,143)**	(51,596)
Proceeds on sale of property	**230**	700	**238**	6,234
Proceeds on sale of investments	**587**	4,215	**3,991**	4,405
Change in non-cash working capital				
Accounts payable and accrued liabilities	**7,872**	(2,011)	**3,383**	(2,951)
Accounts receivable	**813**	4,412	**2,527**	602
Cash used in Investing Activities	**(6,661)**	(12,597)	**(32,234)**	(43,280)
Net cash Inflow	**-**	-	**-**	-
Cash, beginning of period	**-**	-	**-**	-
Cash, end of period	**-**	-	**-**	-
Non-cash financing transactions				
Reclassification of contributed surplus to share capital upon exercise of options	**16**	210	**149**	302

See accompanying notes to these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the periods ended (unaudited)

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

	Number of shares outstanding (Note 11)	Share Capital (Note 11)	Contributed Surplus	Accumulated other comprehensive income	Retained Earnings	Total Shareholders' Equity
January 1, 2010	18,619,641	121,955	3,350	2,020	53,219	180,544
Share-based payments			426			426
Exercise of options	283,900	5,758				5,758
Transfer to share capital on exercise of options		302	(302)			-
Comprehensive income [1]				2,088	28,116	30,204
Dividends					(34,305)	(34,305)
September 30, 2010	18,903,541	128,015	3,474	4,108	47,030	182,627
Share-based payments			57			57
Exercise of options	316,000	6,619				6,619
Transfer to share capital on exercise of options		396	(396)			-
Comprehensive income [1]				1,594	11,838	13,432
Dividends					(12,562)	(12,562)
December 31, 2010	19,219,541	135,030	3,135	5,702	46,306	190,173
Share-based payments			1,732			1,732
Exercise of options	130,300	2,649				2,649
Transfer to share capital on exercise of options		149	(149)			-
Comprehensive income (loss) [1]				(2,538)	37,541	35,003
Dividends					(43,649)	(43,649)
September 30, 2011	19,349,841	137,828	4,718	3,164	40,198	185,908

(1) Total comprehensive income is equal to the amount under total shareholders' equity

See accompanying notes to these condensed consolidated financial statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at September 30, 2011 and December 31, 2010 and for the three and nine month periods ended September 30, 2011 and 2010 (unaudited)

1. NATURE OF BUSINESS AND SEGMENT INFORMATION

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

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

The condensed consolidated financial statements were authorized for issue by the Company's Board of Directors on November 9, 2011.

2. BASIS OF PREPARATION

a) Statement of Compliance

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (CICA Handbook). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (IFRS) and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these interim financial statements in accordance with International Accounting Standards 34 – Interim Financial Reporting (IAS 34) after applying the requirements of International Financial Reporting Standards 1 – First-time Adoption of International Financial Reporting Standards (IFRS 1). In the financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

The accounting policies, methods of application and the use of judgements and estimates followed in the preparation of the condensed consolidated financial statements and the required and allowed exemptions from retrospective application of IFRS from the transition date of January 1, 2010 are the same as those followed in the preparation of Bonterra's March 31, 2011 interim condensed consolidated financial statements and should be read in conjunction with the March 31, 2011 interim condensed consolidated financial statements and the audited financial statements presented under Canadian GAAP for the fiscal year ended December 31, 2010 together with the notes related thereto.

The September 30, 2010 comparative reconciliations to IFRS from the previously published Canadian GAAP consolidated financial statements are summarized in Note 17.

b) Recent Accounting Pronouncements

Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet assessed the impact, if any, that the new amended standards will have on its financial statements or whether to early adopt any of the new requirements.

IFRS 9 "Financial Instruments"

The result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for

financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

IFRS 10 “Consolidated financial Statements”

Replaces Standing Interpretations Committee 12, “Consolidation - Special Purpose Entities” and the consolidation requirements of IAS 27 “Consolidated and Separate Financial Statements”. The new standard replaces the existing risk and rewards based approaches and establish control as the determining factor when determining whether an interest in another entity should be included in the consolidated financial statements.

IFRS 11 “Joint Arrangements”

Replaces IAS 31 “Interests in Joint Ventures” along with amending IAS 28 “Investment in Associates”. The new standard focuses on the rights and obligations of an arrangement, rather than its legal form. The standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted.

IFRS 12 “Disclosure of Interests in Other Entities”

Provides comprehensive disclosure requirements on interests in other entities, including joint arrangements, associates, and special purpose vehicles. The new disclosure requires information that will assist financial statement users in evaluating the nature, risks and financial effects of an entity’s interest in subsidiaries and joint arrangements.

IFRS 13 "Fair Value Measurement"

Provides a common definition of fair value within IFRS. The new standard provides measurement and disclosure guidance and applies when IFRS requires or permits the item to be measured at fair value, with limited exceptions. This standard does not determine when an item is measured at fair value and as such does not require new fair value measurements.

Additionally, as of January 1, 2013, Bonterra will be required to adopt amendments to IAS 1 “Presentation of Financial Statements” which will require companies to group together items within other comprehensive income that may be reclassified to the net earnings section of the comprehensive income statement. Bonterra does not expect a material impact as a result of the amendment.

3. FINANCE COSTS

A breakdown of finance costs for the current and previous periods are:

	Three Months		Nine Months	
($ 000s)	**September 30, 2011**	September 30, 2010	**September 30, 2011**	September 30, 2010
Interest expense on bank debt	**502**	561	**1,725**	1,590
Interest expense on subordinated promissory note	**114**	-	**337**	-
Interest expense on amounts owing to related parties	**191**	140	**568**	363
Unwinding of the discounted value of decommissioning liabilities	**205**	216	**615**	642
	1,012	917	**3,245**	2,595

4. INVESTMENT IN RELATED PARTY

The investment consists of 689,682 (December 31, 2010 – 689,682) common shares in Geomark Exploration Ltd. (Geomark), a company with common directors and management with the Company. The investment is recorded at fair market value.

Effective July 6, 2010, Comaplex Minerals Corp. (Comaplex) (a company with common management and directors) was acquired by Agnico-Eagle Mines Limited (Agnico-Eagle). In exchange for Bonterra's 689,682 common shares in Comaplex, the Company received 689,682 shares in Geomark and 108,693 common shares in Agnico-Eagle (value of the remaining shares are included in Investments on the balance sheet). The common shares of Agnico-Eagle trade on the Toronto Stock Exchange under the symbol AEM and the common shares of Geomark trade on the TSX Venture Exchange under the symbol GME. The investment in Geomark represents 1.3 percent ownership in the outstanding common shares of Geomark.

5. EXPLORATION AND EVALUATION ASSETS

($ 000s)	**E&E assets**
Cost and net book value	
Balance at January 1, 2010	7,992
Additions	-
Transfer to property, plant and equipment	(3,397)
Balance at December 31, 2010	**4,595**
Additions	252
Transfer to property, plant and equipment	(1,992)
Balance at September 30, 2011	**2,855**

6. PROPERTY, PLANT AND EQUIPMENT

Cost ($ 000s)	**Oil and gas properties**	**Production facilities**	**Furniture, fixtures & other equipment**	**Total property, plant & equipment**
Cost				
Balance at January 1, 2010	211,020	52,552	1,461	265,033
Additions	69,449	10,386	13	79,848
Transfers from exploration and evaluation assets	3,397	-	-	3,397
Disposals	(382)	(210)	-	(592)
Balance at December 31, 2010	**283,484**	**62,728**	**1,474**	**347,686**
Additions	35,817	10,266	60	46,143
Transfers from exploration and evaluation assets	1,992	-	-	1,992
Disposals	(166)	(136)	(41)	(343)
Balance at September 30, 2011	**321,127**	**72,858**	**1,493**	**395,478**

Accumulated Depletion and Depreciation ($ 000s)	**Oil and gas properties**	**Production facilities**	**Furniture, fixtures & other equipment**	**Total property, plant & equipment**
Balance at January 1, 2010	(70,030)	(21,428)	(1,016)	(92,474)
Depletion and depreciation for the year	(18,428)	(3,950)	(82)	(22,460)
Disposals	161	113	-	274
Balance at December 31, 2010	**(88,297)**	**(25,265)**	**(1,098)**	**(114,660)**
Depreciation for the period	(15,644)	(3,528)	(60)	(19,232)
Disposals	211	44	38	293
Balance at September 30, 2011	**(103,730)**	**(28,749)**	**(1,120)**	**(133,599)**

Net book values as at: **($ 000s)**				
January 1, 2010	140,990	31,124	445	172,559
December 31, 2010	195,187	37,463	376	233,026
September 30, 2011	**217,397**	**44,109**	**373**	**261,879**

Impairment

Management has determined there are four cash generating units for the Company, which are comprised of one core cash-generating unit (CGU) for the Pembina Cardium and Willesden Green assets in Alberta, Canada and three other CGUs which are comprised of:

- The remainder of Alberta, Canada
- Saskatchewan, Canada
- British Columbia, Canada.

These CGUs are the Company's producing fields. As part of its impairment analysis, the Company assessed its property, plant and equipment (PPE) assets, production facilities, furniture and other equipment by CGU for possible impairment. There has been no indication of impairment as of September 30, 2011.

7. INCOME TAXES

The Company has recorded a deferred tax asset related to:

($ 000s)	**September 30, 2011**	December 31, 2010
Deferred tax asset (liability) related to:		
Investments	**(407)**	(832)
Exploration and evaluation assets and property, plant and equipment	**(16,609)**	(16,053)
Decommissioning liabilities	**6,848**	5,866
Share issue costs	**94**	367
Corporate tax losses and SR&ED claims	**45,734**	60,606
Corporate capital tax loss	**17,234**	17,705
Valuation adjustment	**(16,827)**	(16,873)
Deferred tax asset	**36,067**	50,786

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

($ 000s)	Rate of Utilization (%)	Amount
Undepreciated capital costs	20-100	35,570
Eligible capital expenditures	7	6,978
Share issue costs	20	356
Canadian oil and gas property expenditures	10	19,837
Canadian development expenditures	30	124,138
Canadian exploration expenditures	100	11,174
Income tax losses carried forward [1]	100	209,652
		407,705

[1] Federal income tax losses carried forward expire in the following years; 2026 - $44,606,000, 2027 - $117,189,000, 2028 - $34,726,000, 2029 - $13,131,000.

The Company has $27,670,000 (December 31, 2010 - $27,670,000) remaining of investment tax credits that expire in the following years; 2019 - $3,469,000, 2020 - $3,059,000, 2021 - $4,667,000, 2022 - $3,909,000, 2023 - $3,155,000, 2024 - $1,995,000, 2025 - $2,257,000, 2026 - $ 2,405,000, 2027 - $2,009,000, 2028 - $745,000.

The Company also has $137,514,000 (December 31, 2010 - $139,773,000) of capital loss carry forwards which can only be claimed against taxable capital gains.

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.

8. TRANSACTIONS WITH RELATED PARTIES

As of September 30, 2011, the Company's CEO and major shareholder has loaned the Company $12,000,000 (December 31, 2010 - $12,000,000). The loan is unsecured, bears interest at Canadian chartered bank prime less 5/8 of a percent and has no set repayment terms but is payable on demand. Interest paid on this loan during the first nine months of 2011 was $213,000 (September 30, 2010 - $170,000).

As a result of the acquisition by Agnico-Eagle of Comaplex on July 6, 2010, the $12,000,000 loan previously held by Comaplex was transferred to Geomark and is repayable by the Company under the same terms. In the third quarter of 2010, Geomark loaned Bonterra an additional $8,000,000. As of September 30, 2011, Geomark has loaned the Company a total of $20,000,000 (December 31, 2010 – $20,000,000). At September 30, 2011 the loan is unsecured, bears interest at Canadian chartered bank prime less 5/8 of a percent and has no set repayment terms but is payable on demand. Interest paid on this loan during the first nine months of 2011 was $355,000 (September 30, 2010 - $193,000 paid to Geomark and Comaplex).

On November 1, 2011, the Company entered into a floating charge debenture to provide security in favor of both the Geomark loan and the CEO and major shareholder loan. Security under the debentures is over all of the Company's assets and is subordinated to any and all claims in favour of the syndicate of senior lenders providing credit facilities to the Company.

The 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. As at September 30, 2011, the Company had sufficient room to repay all balances.

The Company received a management fee from Geomark of $202,500 for the nine month period ended September 30, 2011 (2010 - $249,000 received from Geomark and Comaplex) for management services and office administration. This fee has been included in other income. As at September 30, 2011, the Company had an account receivable from Geomark of $33,000 (December 31, 2010 - $35,000).

The Company received a management fee of $45,000 for the nine month period ended September 30, 2011 (2010 - $67,500) for management services and office administration from Pine Cliff Energy Ltd. (Pine Cliff) a company with common directors and management with Bonterra. This fee has been included in other income. As at September 30, 2011, the Company had an account receivable from Pine Cliff of $1,000 (December 31, 2010 - $1,000).

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Compensation for key management personnel

($ 000s)	**September 30, 2011**	September 30, 2010
Compensation	**777**	584
Share-based payments	**860**	139
Total compensation	**1,637**	723

Key management personnel are those persons, including all directors, having authority and responsibility for planning, directing and controlling the activities of the Company.

9. SUBORDINATED PROMISSORY NOTE

On October 4, 2010, the Company borrowed $15,000,000 from a private investor. In exchange, Bonterra has issued a Subordinated Promissory Note for $15,000,000. The terms of the Subordinated Promissory Note are that it bears interest at three percent, is not callable by the investor prior to January 4, 2012 at which time it will be a demand note until its maturity of April 4, 2012, and can be repaid at the option of the Company at any time. Security consists of a floating demand debenture totaling $15,000,000 over all of the Company's assets and is subordinated to any and all claims in favor of the syndicate of senior lenders providing credit facilities to the Company. Interest paid on the subordinated promissory note during the first nine months of 2011 was $337,000 (September 30, 2010 - $Nil).

The Company's bank agreement requires that the above loan can only be repaid should the Company have sufficient available borrowing limits under the Company's credit facility. As of September 30, 2011, the Company has sufficient room to repay the subordinated promissory note.

10. BANK DEBT

As of September 30, 2011 and December 31, 2010, the Company has a bank facility consisting of $100,000,000 syndicated revolving credit facility and a $20,000,000 non-syndicated revolving credit facility. Amounts drawn under the facility at September 30, 2011 were $72,391,000 (December 31, 2010 - $70,386,000). Amounts borrowed under the credit facility at September 30, 2011 bear interest at a floating rate based on the applicable Canadian prime rate or Banker's Acceptance rate, plus between 0.75 percent and 3.50 percent, depending on the type of borrowing and the Company's consolidated total funded debt to consolidated cash flow. The terms of the syndicated revolving credit facility provided that the loan is revolving to April 26, 2012 and with a maturity date of April 25, 2013 and is subject to annual review. The revolving credit facility has no fixed terms of repayment.

The amount available for borrowing under the credit facilities is reduced by outstanding letters of credit. Letters of credit totaling $400,000 were issued September 30, 2011 (December 31, 2010 - $285,000). Security for credit facilities consists of various and floating demand debentures totaling $200,000,000 over all of the Company's assets, and general security agreement with first ranking over all personal and real property.

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

- The Company is required to not exceed $120,000,000 in consolidated debt (includes working capital but excludes related party amounts and subordinated promissory note).
- Dividends paid in the current quarter and the three previous quarters shall not exceed 80 percent of the previous four quarters' cash flow as defined under IFRS excluding adjustments for non-cash working capital items.

At September 30, 2011, the Company is in compliance with all covenants.

11. SHAREHOLDERS' EQUITY

Authorized

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

	September 30, 2011		December 31, 2010	
Issued and fully paid – common shares	**Number**	**Amount ($ 000s)**	Number	Amount ($ 000s)
Balance, January 1	**19,219,541**	**135,030**	18,619,641	121,955
Options exercised	**130,300**	**2,649**	599,900	12,377
Transfer from contributed surplus to share capital		**149**		698
Balance, end of period	**19,349,841**	**137,828**	19,219,541	135,030

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

The weighted average common shares used to calculate basic and diluted net earnings per share for the periods ended September 30 are as follows:

	Three Months		Nine Months	
	2011	2010	**2011**	2010
Basic shares outstanding	**19,331,808**	18,840,418	**19,312,195**	18,739,449
Dilutive effect of share options [(1)]	**344,148**	530,549	**362,605**	534,483
Diluted shares outstanding	**19,675,956**	19,370,967	**19,674,800**	19,273,932

[(1)] The Company did not include 623,000 share options for the three months ended September 30, 2011 (September 30, 2010 – Nil) and 617,000 share options for the nine months ended September 30, 2011 (September 30, 2010 – Nil) in the dilutive effect of share options calculation, as these share options were anti-dilutive.

The Company provides an equity settled option plan for its directors, officers, employees and consultants. Under the plan, the Company may grant options for up to 1,934,984 (December 31, 2010 – 1,921,954) common shares. The exercise price of each option granted cannot be lower than the market price of the common shares on the date of grant and the option's maximum term is five years.

A summary of the status of the Company's stock option plan as of September 30, 2011 and December 31, 2010, and changes during the nine month and twelve month periods ended on those dates is presented below:

	Number of options	**Weighted average exercise price**
At January 1, 2010	1,330,900	$ 20.36
Options granted	36,000	36.98
Options exercised	(599,900)	20.63
Options cancelled	(20,000)	34.66
At December 31, 2010	747,000	$ 20.56
Options granted	623,000	58.08
Options exercised	(130,300)	20.33
Options forfeited	(40,000)	20.50
At September 30, 2011	1,199,700	$ 40.07

The following table summarizes information about options outstanding at September 30, 2011:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number outstanding at September 30, 2011	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at September 30, 2011	Weighted-average exercise price
$ 14.90	18,000	1.2 years	$ 14.90	7,000	$ 14.90
20.50	552,700	1.0 years	20.50	84,200	20.50
48.00 – 52.00	12,000	1.6 years	50.11	-	-
58.00 – 59.00	617,000	2.2 years	58.14	-	-
$ 14.90 – $ 59.00	1,199,700	1.6 years	$ 40.07	91,200	$ 20.07

12. OIL AND GAS SALES, NET OF ROYALTIES

	Three Months		Nine Months	
($ 000s)	**September 30, 2011**	September 30, 2010	**September 30, 2011**	September 30, 2010
Oil and gas sales	**36,535**	28,332	**119,459**	84,771
Less:				
Crown royalties	**(3,428)**	(1,907)	**(9,323)**	(5,470)
Freehold, gross overriding and other royalties	**(1,725)**	(1,065)	**(3,984)**	(3,223)
Oil and gas sales, net of royalties	**31,382**	25,360	**106,152**	76,078

13. OTHER INCOME

	Three Months		Nine Months	
($ 000s)	**September 30, 2011**	September 30, 2010	**September 30, 2011**	September 30, 2010
Investment income	**8**	3	**22**	26
Administrative income	**83**	91	**248**	316
Gain on sale of property	**158**	700	**162**	6,558
Gain on sale of investments	**272**	3,536	**2,126**	3,553
Other income	**521**	4,330	**2,558**	10,453

14. FINANCIAL AND CAPITAL RISK MANAGEMENT

Financial Risk Factors

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

- Accounts receivable
- Accounts payable and accrued liabilities
- Common share investments
- Due to related parties
- Bank debt
- Subordinated promissory note

The Company's activities result in exposure to a number of financial risks including market risk (commodity price risk, interest rate risk, and 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 is managed by senior management under the direction of the Board of Directors.

The Company may enter into various risk management contracts 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, which the Company defines to include shareholders' equity, debt and working capital balances, 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 a capital structure that provides a low cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends, debt facilities 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's net debt (total debt adjusted for working capital) divided by the preceding twelve months cash flow. 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 from operations 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

	As at September 30, 2011			As at December 31, 2010		
($ 000s)	**Carrying Value**	**Fair Value**	**Face Value**	Carrying Value	Fair Value	Face Value
Financial assets						
Accounts receivable	**15,726**	**15,726**	**15,793**	17,345	17,345	17,445
Investments	**6,885**	**6,885**	**N/A**	11,471	11,471	N/A
Investments in related party	**552**	**552**	**N/A**	814	814	N/A
Financial liabilities						
Accounts payable and accrued liabilities	**21,888**	**21,888**	**21,888**	16,839	16,839	16,839
Due to related parties	**32,000**	**32,000**	**32,000**	32,000	32,000	32,000
Subordinated promissory note	**15,000**	**15,000**	**15,000**	15,000	15,000	15,000
Bank debt	**72,391**	**72,391**	**72,391**	70,386	70,386	70,386

Financial instruments consisting of accounts receivable, accounts payable and accrued liabilities, due to related parties, subordinated promissory note and bank debt on the statement of financial position are carried at amortized cost. Investments and investments in related party are carried at fair value. All of the fair value items are transacted in active markets. Bonterra classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Bonterra's investments and investments in related party have been assessed on the fair value hierarchy described above and are all considered Level 1.

The net debt and cash flow figures as of September 30, 2011 are presented in Table 2.

Table 2

($ 000s)	**September 30, 2011**
Bank debt	**72,391**
Accounts payable and accrued liabilities	**21,888**
Due to related parties	**32,000**
Subordinated promissory note	**15,000**
Current assets	**(25,526)**
Net debt	**115,753**
Annualized cash flow from operations [(1)]	**88,205**
Net debt to annualized cash flow from operations	**1.31**

[(1)] Annualized cash flow from operations is the trailing twelve month cash flow from operations and is used to calculate the net debt to annualized cash flow from operations ratio.

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 has used various risk management contracts to set price parameters for a portion of its production. Management, in agreement with the Board of Directors, decided that at least in the near term it will not enter into any commodity price agreements. The Company will assume full risk in respect of commodity prices.

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 borrowings which have a variable interest rate which gives rise to a cash flow interest rate risk.

The Company's debt facilities consist of a $100,000,000 revolving operating line, $20,000,000 demand operating line and $32,000,000 due to related parties. The borrowings under these facilities are at bank prime plus or minus various percentages as well as by means of banker's acceptances (BAs) within the Company's credit facility. The Company manages its exposure to interest rate risk through entering into various term lengths on its BAs 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.

A one percent increase (decrease) in the Canadian prime rate would decrease (increase) annual net earnings and comprehensive income by $767,000 respectively.

Equity price risk

Equity price risk refers to the risk that the fair value of the investments and investment in related party will fluctuate due to changes in equity markets. Equity price rate risk arises from the realizable value of the equity bearing financial assets that the Company holds which are subject to variable equity market prices which on disposition gives rise to a cash flow equity price risk. The Company will assume full risk in respect of equity price fluctuations.

Foreign exchange risk

The Company has no foreign operations and currently sells all of its product sales in Canadian currency. The Company however is exposed to currency risk in that crude oil is priced in U.S. currency, then converted to Canadian currency. The Company currently has no outstanding risk management agreements. Management, in agreement with the Board of Directors, decided that at least in the near term it will not use commodity price agreements. The Company will assume full risk in respect of foreign exchange fluctuations.

Credit risk

Credit risk is the risk that a contracting party will not complete its obligations under a financial instrument and cause the Company to incur a financial loss. The Company is exposed to credit risk on all financial assets included on the statement of financial position. 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; and
- Agreements for product sales are primarily on 30 day renewal terms;

Of the $15,726,000 accounts receivable balance at September 30, 2011 (December 31, 2010 - $17,345,000) over 74 percent (2010 – 88 percent) relates to product sales with international oil and gas companies and drilling credits receivable from the province of Alberta.

The Company assesses quarterly if there has been any impairment of the financial assets of the Company. During the period ended September 30, 2011, there was no material impairment provision required on any of the financial assets of the Company due to historical success of realizing financial assets. The Company does have a credit risk exposure as the majority of the Company's accounts receivable are with counterparties having similar characteristics. However, payments from the Company's largest accounts receivable counterparties have consistently been received within 30 days and the sales agreements with these parties are cancellable with 30 days notice if payments are not received.

At September 30, 2011, approximately $777,000 or 4.5 percent of the Company's total accounts receivable are aged over 90 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 netting payables 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, 2011 is $67,000 (December 31, 2010 - $100,000) with the difference being included in general and administrative expenses. There were no material accounts written off during the period.

The maximum exposure to credit risk is represented by the carrying amounts of accounts receivable, accounts payable and accrued liabilities, subordinated promissory note, due to related parties and bank debt on the statement of financial position. There are no material financial assets that the Company considers past due.

Liquidity risk

Liquidity risk includes the risk that, as a result of the 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:

($ 000s)	Recognized on Financial Statements	Less than 1 year	Over 1 year to 3 years	4 to 5 years
Accounts payable and accrued liabilities	Yes - Liability	21,888	-	-
Due to related parties	Yes - Liability	32,000	-	-
Subordinated promissory note	Yes - Liability	15,000	-	-
Bank debt	Yes - Liability	-	72,391	-
Office leases	No	884	816	-
Total		69,772	73,207	-

c) Risk management contracts

The Company has no outstanding risk management contracts.

15. COMMITMENTS AND CONTINGENCIES

Operating leases

The Company has entered into leases for buildings and office equipment. These leases have an average life of two years. There are no restrictions placed upon the lessee by entering into these leases. Future minimum lease payments under non-cancellable operating leases as at September 30, 2011 are as follows:

($ 000s)	**2011**
Within one year	884
After one year but not more than five years	816
Total	1,700

16. SUBSEQUENT EVENT – DIVIDENDS

Subsequent to September 30, 2011, the Company has declared the following dividends:

Date declared	Record date	$ per share	Date payable
October 4, 2011	October 14, 2011	0.26	October 31, 2011
November 2, 2011	November 15, 2011	0.26	November 30, 2011

17. TRANSITION TO IFRS

As stated in Note 2, these financial statements are prepared in accordance with IFRS. For all accounting periods prior to January 1, 2011, the Company prepared its financial statements under Canadian GAAP. An explanation of how the transition from previous GAAP to IFRS has affected the Company's statement of financial position and comprehensive income is set out in this note.

The accounting policies set out in Bonterra's March 31, 2011 interim condensed consolidated financial statements have been applied in preparing the financial statements for the period ended September 30, 2011, the comparative information presented in these financial statements for the periods ended September 30, 2010 and as at September 30, 2010 and December 31, 2010.

The following are reconciliations for the periods ended September 30, 2010. Reconcilations for statement of financial position as at January 1, 2010 (the Company's transition date) and December 31, 2010 and the reconciliation of the statement of comprehensive income for the year ended December 31, 2010 are disclosed in Bonterra's March 31, 2011 condensed consolidated financial statements.

17.1 Reconciliation of the statement of financial position

		As at September 30, 2010		
($ 000s)	Notes	Canadian GAAP	IFRS Adjustments	**IFRS**
ASSETS				
Current				
Accounts receivable		16,975	-	**16,975**
Crude oil inventory		529	-	**529**
Prepaid expenses		2,899	-	**2,899**
Deferred tax asset	(b)	18,082	(18,082)	**-**
Investments		10,123	-	**10,123**
		48,608	(18,082)	**30,526**
Investment in related party		724	-	**724**
Exploration and evaluation assets	(a)	-	6,065	**6,065**
Property, plant and equipment	(a)	203,636	6,049	**209,685**
Investment tax credit receivable		27,670	-	**27,670**
Deferred tax asset	(b)	37,855	16,096	**53,951**
		318,493	10,128	**328,621**

LIABILITIES				
Current				
Accounts payable and accrued liabilities		19,179	-	**19,179**
Due to related parties		32,000	-	**32,000**
Deferred credit	(c)	15,320	(15,320)	**-**
		66,499	(15,320)	**51,179**
Bank debt		73,901	-	**73,901**
Deferred credit	(c)	32,072	(32,072)	**-**
Decommissioning liabilities	(d)	17,529	3,385	**20,914**
		190,001	(44,007)	**145,994**
Shareholders' Equity				
Share capital		128,015	-	**128,015**
Contributed surplus		3,474	-	**3,474**
Accumulated other comprehensive income		4,108	-	**4,108**
Retained earnings (deficit)	(e)	(7,105)	54,135	**47,030**
Total equity		128,492	54,135	**182,627**
		318,493	10,128	**328,621**

IFRS has many similarities with Canadian GAAP as it is based on a similar conceptual framework. However, there are important differences with regard to recognition, measurement and disclosure. While adoption of IFRS did not change Bonterra's actual cash flows significantly, it resulted in changes to Bonterra's statement of financial position, statement of comprehensive income and statement of changes in equity as set out below:

a) Property, plant and equipment

	September 30, 2010 ($ 000s)
The Company exchanged certain oil and gas assets (Asset Exchange) in Alberta for oil and gas assets in Saskatchewan. The assets received were recorded at book value of the assets disposed of under Canadian GAAP. In accordance with IFRS, the values of the assets received are to be recorded at fair value, net of depletion	11,074
Increase related to change in discount rate used to present value future oil and gas well reclamation and abandonment costs, net of depletion	1,610
The Company is required to retroactively restate its capitalized overhead relating to oil and gas assets previously reported under Canadian GAAP. Under IFRS, only directly attributable costs can be capitalized	(570)
Under Canadian GAAP, capitalized exploration and evaluation assets were included with the Company's property, plant and equipment assets. Under IFRS, exploration and evaluation assets are separately disclosed within the statement of financial position	(6,065)
Net effect – increase in PPE assets	**6,049**

b) Deferred tax assets

	September 30, 2010 ($ 000s)
Decrease related to using fair value instead of book value for the assets received in the Asset Exchange	(2,574)
In accordance with IFRS, an increase in deferred tax assets has resulted from the increase of the decommissioning liabilities provision (see (d) below)	445
Restatement of capitalized overhead from Canadian GAAP	143
Reclassification of deferred tax assets classified as current under Canadian GAAP to non-current	18,082
Net effect – increase in deferred tax assets	**16,096**

c) Deferred credit

On November 12, 2008, Bonterra Energy Income Trust (the Trust) was acquired by Bonterra Oil & Gas Ltd. through a reverse takeover by the Trust of SRX Post Holdings Inc. (SRX). This transaction gave the Company additional tax pools in excess of the purchase price. Under Canadian GAAP, this purchase was considered an acquisition of an asset and not a business combination and therefore the resulting gain on acquisition had to be deferred and charged to net earnings on the same basis as the acquired assets. Under IFRS, the deferred gain does not meet the definition of a liability and was credited to retained earnings upon transition to IFRS.

17.1 Reconciliation of the statement of financial position (continued)

d) Decommissioning liabilities

The discounted value of the decommissioning liabilities has increased due to a change in the discount rate used to calculate the present value of future oil and gas well reclamation and abandonments. Under Canadian GAAP, a credit risk adjusted discount rate was used; under IFRS, a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation has been used. In accordance with IFRS 1, the Company has elected to recognize the $3,385,000 increase in the decommissioning obligation along with an increase to the related property, plant and equipment net of depletion, deferred tax assets and retained earnings (see (a) and (b) above and (e) below) as at September 30, 2010.

e) Retained earnings

The following tables represent the cumulative effect on the above transitional adjustments on retained earnings for the respective periods covered under this reconciliation:

	September 30, 2010 ($ 000s)
Using fair value instead of book value for assets received in the Asset Exchange (see (a) and (b) above)	8,500
Restatement of capitalized overhead from Canadian GAAP (see (a) and (b) above)	(427)
Deferred credit (see (c) above)	47,392
Decommissioning liabilities (see (a), (b) and (d) above)	(1,330)
Net effect – increase in retained earnings	**54,135**

17.2 Reconciliation of the statement of comprehensive income

		Three months ended September 30, 2010			Nine months ended September 30, 2010		
($ 000s)	Notes	Canadian GAAP	IFRS Adjustments	IFRS	Canadian GAAP	IFRS Adjustments	IFRS
Revenues							
Oil and gas sales, net of royalties	(a)	25,385	(25)	25,360	76,186	(106)	76,078
Other income	(b)	4,238	92	4,330	10,064	389	10,453
		29,623	67	29,690	86,250	281	86,531
Expenses							
Production costs		8,070	-	8,070	21,753	-	21,753
Office and administration	(c)	1,204	(937)	267	3,940	(2,861)	1,079
Employee compensation	(c)	-	1,030	1,030	-	3,175	3,175
Finance costs	(d)	702	215	917	1,953	642	2,595
Share-based payments expense		142	-	142	426	-	426
Depletion and depreciation	(e)	6,256	20	6,276	16,265	90	16,355
		16,374	328	16,702	44,337	1,046	45,383
Earnings before income taxes		13,249	(261)	12,988	41,913	(765)	41,148
Income taxes							
Current	(a)	25	(25)	-	106	(106)	-
Deferred	(f)	500	2,358	2,858	6,156	6,876	13,032
		525	2,333	2,858	6,262	6,770	13,032
Net earnings for the period		12,724	(2,594)	10,130	35,651	(7,535)	28,116
Other comprehensive income							
Unrealized gains on investments		1,782	-	1,782	5,960	-	5,960
Deferred taxes on unrealized gains on investments		(245)	-	(245)	(816)	-	(816)
Realized gains on investments transferred to net earnings		(3,536)	-	(3,536)	(3,553)	-	(3,553)
Deferred taxes on realized gains on investments transferred to net earnings		494	-	494	497	-	497
Other comprehensive income for the period		(1,505)	-	(1,505)	2,088	-	2,088
Comprehensive income for the period		11,219	(2,594)	8,625	37,739	(7,535)	30,204
Net earnings per share – Basic		0.68	(0.14)	0.54	1.90	(0.40)	1.50
Net earnings per share – Diluted		0.66	(0.14)	0.52	1.85	(0.39)	1.46
Comprehensive income per share – Basic		0.60	(0.14)	0.46	2.01	(0.40)	1.61
Comprehensive income per share – Diluted		0.58	(0.13)	0.45	1.96	(0.39)	1.57

17.2 Reconciliation of the statement of comprehensive income (continued)

The nature of the adjustments is explained as follows:

a) Oil and gas sales, net of royalties

($ 000s)	Three months ended September 30, 2010	Nine months ended September 30, 2010
Reclassification of the Saskatchewan surcharge from taxes to royalties which are netted against revenue. This item is netted off of revenue to reflect the deduction for the other party's proportionate share of the revenue	(25)	(106)

b) Other income

($ 000s)	Three months ended September 30, 2010	Nine months ended September 30, 2010
Increase on the gain from the sale of property which relates to an increase in the decommissioning liabilities prior to sale (see note 17.1 (d))	-	73
Reclassification of management fee income previously netted off of office and administration expense under Canadian GAAP	92	316
	92	389

c) Office and administration

($ 000s)	Three months ended September 30, 2010	Nine months ended September 30, 2010
Reclassification of employee compensation grouped with office administration under Canadian GAAP	(1,030)	(3,175)
Reclassification of management fee income previously netted off of office and administration expense under Canadian GAAP (see note 17.2 (b))	92	316
Other	1	(2)
	(937)	(2,861)

17.2 Reconciliation of the statement of comprehensive income (continued)

d) Finance costs

($ 000s)	Three months ended September 30, 2010	Nine months ended September 30, 2010
Decrease in the unwinding of the discounted value of decommissioning liabilities due to the transition adjustment (see note 17.1 (d))	(13)	(34)
Reclassification of the unwinding of the discounted value of decommissioning liabilities previously grouped with depletion and depreciation under Canadian GAAP	228	676
	215	642

e) Depletion and depreciation

($ 000s)	Three months ended September 30, 2010	Nine months ended September 30, 2010
Increase in depletion due to the increase in PPE (see note 17.1 (a))	248	766
Reclassification of the unwinding of the discounted value of decommissioning liabilities previously grouped with depletion and depreciation under Canadian GAAP	(228)	(676)
	20	90

f) Deferred taxes

($ 000s)	Three months ended September 30, 2010	Nine months ended September 30, 2010
Increase in deferred taxes due to the removal of the deferred credit (see note 17.1 (c))	2,418	7,739
Decrease in deferred taxes due to the increase in PPE (see note 17.1 (a)) and a decrease in deferred taxes due to the increase in the decommissioning liabilities (see note 17.1 (d))	(60)	(863)
	2,358	6,876

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