Q2 For the Six Months ended June 30, 2012

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BONTERRA ENERGY REPORTS SECOND QUARTER 2012 FINANCIAL AND OPERATING RESULTS

HIGHLIGHTS

As at and for the periods ended		Three months ended		Six months ended	
($ 000s except $ per share)		**June 30, 2012**	June 30, 2011	**June 30, 2012**	June 30, 2011
FINANCIAL					
Revenue – oil and gas sales		**31,049**	44,754	**67,942**	82,924
Funds flow[(1)]		**16,621**	27,906	**38,928**	55,172
Per share – basic		**0.84**	1.44	**1.97**	2.86
Per share – diluted		**0.84**	1.42	**1.97**	2.80
Payout ratio		**93%**	54%	**79%**	52%
Cash flow from operations		**14,727**	25,465	**36,425**	49,499
Per share – basic		**0.74**	1.32	**1.85**	2.57
Per share – diluted		**0.74**	1.29	**1.84**	2.52
Payout ratio		**105%**	59%	**84%**	58%
Cash dividends per share [(2)]		**0.78**	0.78	**1.56**	1.50
Net earnings		**9,201**	14,533	**19,383**	28,157
Per share – basic		**0.47**	0.75	**0.98**	1.46
Per share – diluted		**0.46**	0.74	**0.98**	1.43
Cash netback [(3)]		**30.24**	48.11	**33.20**	44.96
Capital expenditures and acquisitions, net of dispositions		**25,288** [(4)]	5,872	**46,701** [(4)]	26,216
Total assets				**393,772**	348,097
Working capital deficiency				**42,082**	30,823
Long-term debt				**114,747**	72,608
Shareholders' equity				**176,292**	192,297
OPERATIONS					
Oil	– barrels per day	**3,650**	4,164	**3,813**	4,211
	– average price ($ per barrel)	**80.93**	101.30	**84.87**	93.11
NGLs	– barrels per day	**428**	372	**424**	355
	– average price ($ per barrel)	**53.02**	65.19	**56.62**	60.47
Natural gas	– MCF per day	**11,753**	11,024	**12,006**	10,772
	– average price ($ per MCF)	**1.96**	4.15	**2.15**	4.14
Total BOE per day [(5)]		**6,037**	6,373	**6,237**	6,361

(1) 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 and decommissioning expenditures settled.
(2) Cash dividends per share are based on payments made in respect of production months within the period ended.
(3) 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.
(4) Includes an acquisition that closed on June 7, 2012 for $17,108,000.
(5) Barrels of oil equivalent (BOE) may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 MCF: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

REPORT TO SHAREHOLDERS

Bonterra Energy Corp. (Bonterra or the Company) is pleased to report its operating and financial results for the three months and six months ended June 30, 2012.

The second quarter of this year was characterized by a number of significant challenges and both operating and financial results were below expectations. However, the Company also had some positive activities that will assist in increasing production in the last half of the year and in the future. As explained below, Bonterra is still well-positioned to attain its average daily production guidance of 6,700 to 7,000 BOE per day for full year 2012, maintain its $0.26 monthly dividend to shareholders while continuing to preserve a strong balance sheet.

Many energy companies operating in the Western Canadian Sedimentary Basin, including Bonterra, were negatively affected by both an extended spring break-up and weak crude oil and natural gas prices, which included volatile price differentials between WTI and the average realized price for the Company. In addition, Bonterra experienced pipeline shipping constraints, third party downtime and above average production shut-ins which further impacted results. Despite these setbacks, Bonterra continued to execute its high-impact Cardium drilling program (with the majority of wells to be completed and on production in the third quarter) and completed or are in the process of completing infrastructure and facility upgrades which should substantially improve results over the second half of the year.

Operations

Production in the second quarter of 2012 was 6,037 BOE per day, a six percent decrease compared to the prior quarter and a five percent decrease compared to the same period in 2011. Production for the first six months of 2012 was 6,237 BOE per day, a two percent decrease over the first six months of 2011.

Extended wet weather during the second quarter led to considerably lower field activities for the Company and delayed production coming on stream due to the inability to access leases for drilling and tieing-in new wells during spring break-up. During the first half of the year, Bonterra drilled eight operated wells (7.6 net) with only three wells being placed on production prior to quarter end. The remaining five wells will be completed and placed on production in the third quarter. The Company's active drilling program has resumed post-breakup and Bonterra anticipates drilling and completing a further 26 wells (12.9 net) prior to year end of which nine wells (6.4 net) are operated.

In addition, production levels were reduced by high amounts of shut-in production. Third-party downtime, multi-well pad drilling (during drilling, existing producers on the pad must be shut-it) and low natural gas prices resulted in shut-in production of approximately 330 BOE per day during the first half of the year. The Company continues to anticipate that approximately 130 BOE per day of natural gas production will remain shut-in until natural gas prices recover. Production losses associated with infrastructure and facilities were largely due to isolated circumstances and have been or are in the process of being resolved. Improvements and modifications to infrastructure, such as better use of gas plant and gathering facilities, have also significantly improved production levels from existing wells.

Despite these lower production levels in the first half of the year, with less infrastructure issues and new production from main pool infill horizontal drilling, Bonterra still anticipates meeting its full year guidance. The Company has begun to focus its horizontal drilling program in the main Pembina Cardium pool and drilled its first three operated wells during the first half of the year. These wells came on production at the beginning of Q3 2012 and over the first 20 days of production produced approximately 650 BOE per day at 05-33-046-09W5 (100 percent working interest; 64 percent oil), 470 BOE per day at 01-28-046-09W5 (100 percent working interest; 71 percent oil) and 670 BOE per day at 01-10-047-08W6 (87.5 percent working interest; 87 percent oil). These results are significant as Bonterra is currently evaluating its 350 main pool drilling locations and anticipates that the majority of its future drilling in the Cardium will be main pool horizontals.

During the quarter, Bonterra also completed an acquisition in the Willesden Green Cardium zone for $17.1 million which closed June 7, 2012. The acquisition adds approximately 250 BOE per day of production net to the Company, 52.3 gross (10.5 net) sections of land and 191 gross (37 net) potential Cardium drilling locations. This acquisition was financed with bank debt.

The Company’s current production level is exceeding 6,900 BOE per day. The successful execution of the Company’s remaining approximately $36 million of the $65 million capital development program will provide significant production increases and improved operational performance in the last six months of 2012.

Financial

Bonterra’s financial results were negatively impacted by the lower production volumes and continued commodity price weakness. Oil and natural gas prices continued to decrease in the first half of the year and the Company’s average realized prices declined 8.9 percent and 48.2 percent, respectively, versus the same period in 2011.

WTI oil prices were approximately 9.2 percent lower quarter over quarter and the Company was further impacted by a wide Canadian crude oil differential between WTI and the price realized by the Company, due in part to refinery outages, seasonal turnarounds and transportation capacity issues that created a supply/demand inbalance. Bonterra’s average realized price was on average 9.9 percent less than WTI prices during the quarter and at times traded at a discount of up to $25.00. Natural gas prices have continued to exhibit sustained weakness due to high North American production rates and storage levels compared to previous years.

This current commodity price environment has led to historically low netbacks for Bonterra, which along with lower production volumes, reduced quarter over quarter revenue and funds flow by 30.6 and 40.4 percent, respectively. As production issues during the quarter were isolated and new wells have been placed on production (increasing production volumes), commodity prices increased and the differential improved, the Board of Directors and management elected to maintain the monthly dividend to shareholders at $0.26 per share. The Company anticipates that the payout ratio for the year will be in line and meet full year 2012 guidance of 50 to 65 percent of funds flow.

Bonterra continues to effectively manage its balance sheet strength with a net debt to annualized funds flow ratio of 1.86 times which is slightly above its target range of 1.0 to 1.5 times. Debt includes the one-time acquisition cost of $17,108,000 and the Company anticipates that the debt ratio will be within its forecasted range prior to year-end.

Outlook

The first half of the year was indeed challenging and Bonterra has weathered the storm. The Company is now well-positioned for improved operational performance and better results across the second half of the year. There may be continued volatility in the Canadian crude market as a result of U.S. based supply growth and short-term pipeline outages, however pricing has improved and differentials have narrowed of late. The Company’s capital development program will be extremely active in the second half of the year and drilling results in the main Pembina Cardium pool are expected to continue to be favourable.

This was a demanding start to the year for Bonterra’s management, Board of Directors and staff. The hard work and dedication of Bonterra’s team to increase performance and position the Company for future success was appreciated. As well, the Company was able to further strengthen management during the quarter with the addition of Adrian Neumann as Vice President, Engineering and Operations and additional hires of technical and administrative people.

I would like to take this opportunity to thank our shareholders for their continued support. The Company will maintain its focus on the long-term development of our extensive and high-quality Cardium assets and in the near-term will execute on its highest economic return opportunities to maximize returns and enhance shareholder value.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following report dated August 14, 2012 is a review of the operations and current financial position for the six months ended June 30, 2012 for Bonterra Energy Corp. (Bonterra or the Company) and should be read in conjunction with the unaudited interim condensed financial statements for the periods ended June 30, 2012 and the audited financial statements including the notes related thereto for the fiscal year ended December 31, 2011 presented under International Financial Reporting Standards (IFRS).

Use of Non-IFRS Financial Measures

Throughout this Management's Discussion and Analysis (MD&A) the Company uses the terms "payout ratio" 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 paid to shareholders by cash flow from operating activities, both of which are measures prescribed by IFRS which appear on our statements of cash flows. We calculate cash netback by dividing various financial statement items as determined by IFRS by total production for the period on a barrel of oil equivalent basis.

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

	2012		2011			
Financial ($ 000s except $ per share)	**Q2**	Q1	Q4	Q3	Q2	Q1
Revenue – oil and gas sales	**31,049**	36,893	42,818	36,535	44,754	38,170
Cash flow from operations	**14,727**	21,698	26,180	21,730	25,465	24,034
Per share – basic	**0.74**	1.10	1.35	1.12	1.32	1.25
Per share – diluted	**0.74**	1.10	1.33	1.10	1.29	1.22
Cash dividends per share [1]	**0.78**	0.78	0.78	0.78	0.78	0.72
Payout Ratio	**105%**	71%	58%	69%	59%	58%
Net earnings	**9,201**	10,182	6,067	9,384	14,533	13,624
Per share – basic	**0.47**	0.52	0.31	0.49	0.75	0.71
Per share – diluted	**0.46**	0.51	0.31	0.48	0.74	0.69
Capital expenditures and acquisitions, net of disposals	**25,288** [2]	21,413	20,529	15,941	5,872	20,344
Total assets	**393,772**	371,757	364,176	354,549	348,097	357,000
Working capital deficiency	**42,082**	57,889	51,576	43,362	30,823	39,777
Long-term debt	**114,747**	75,543	69,916	72,391	72,608	70,568
Shareholders' equity	**176,292**	181,008	181,640	185,908	192,297	192,054
Operations						
Oil (barrels per day)	**3,650**	3,975	4,096	3,789	4,164	4,258
NGLs (barrels per day)	**428**	419	493	340	372	338
Natural gas (MCF per day)	**11,753**	12,260	12,541	10,553	11,024	10,517
Total BOE per day [3]	**6,037**	6,438	6,679	5,887	6,373	6,350

	2010			
Financial ($ 000s except $ per share)	Q4	Q3	Q2	Q1
Revenue – oil and gas sales	34,208	28,332	29,191	27,248
Cash flow from operations	16,989	17,544	16,644	15,061
Per share – basic	0.90	0.93	0.89	0.81
Per share – diluted	0.88	0.91	0.87	0.78
Cash dividends per share [1]	0.68	0.66	0.64	0.57
Payout Ratio	76%	71%	72%	70%
Net earnings	11,837	10,130	10,388	7,598
Per share – basic	0.62	0.54	0.55	0.41
Per share – diluted	0.61	0.52	0.54	0.40
Capital expenditures and acquisitions, net of disposals	25,318	19,227	10,994	15,141
Total assets	347,825	328,621	318,251	316,018
Working capital deficiency	17,905	20,653	4,020	16,150
Long-term debt	85,386	73,901	78,434	63,097
Shareholders' equity	190,173	182,627	182,774	182,620
Operations				
Oil (barrels per day)	4,062	3,579	3,607	3,080
NGLs (barrels per day)	316	311	267	265
Natural gas (MCF per day)	10,214	10,674	11,157	10,038
Total BOE per day [2]	6,080	5,669	5,733	5,018

[1] Cash dividends per share are based on payments made in respect of production months within the quarter.
[2] Includes an acquisition that closed on June 7, 2012 for $17,108,000.
[3] BOE is calculated using a conversion ratio of 6 MCF to 1 barrel of oil. The conversion is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead and as such may be misleading if used in isolation.

Production

	Three months ended			Six months ended	
	June 30, 2012	March 31, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Crude oil (barrels per day)	**3,650**	3,975	4,164	**3,813**	4,211
NGLs (barrels per day)	**428**	419	372	**424**	355
Natural gas (MCF per day)	**11,753**	12,260	11,024	**12,006**	10,772
Average BOE per day	**6,037**	6,438	6,373	**6,237**	6,361

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

Production volumes for the first six months of 2012 decreased to 6,237 BOE per day compared to 6,361 BOE per day for the same period one year ago. Not unlike other oil and gas producers in Western Canada, the impact of pipeline shipping constraints, facility turn arounds, forest fires and high levels of precipitation have significantly increased shut-in production for the first six months of 2012. In addition, the first six months of 2011 benefited from nine wells being placed on production compared to only five wells being placed on production in the first half of 2012. The Company has estimated approximately 330 BOE per day of production was shut-in in the first six months of 2012.

During the first quarter drilling program, the Company drilled, completed and worked over wells on an existing multi well pad in the Willesden Green area and when drilling additional wells all other wells on this pad must be shut-in. This resulted in shut-in production averaging 140 BOE per day over the entire quarter. In the second quarter the Company completed a further well in this area on a multi well pad and along with hydrate issues from high pressure gas lines resulted in shut-in production averaging 85 BOE per day over the entire quarter. The hydrate issues were resolved in July.

In addition, the Company experienced shut-in production for compressor overhauls by the operators of major gas plants. This resulted in an estimated average shut-in production of 75 BOE per day for the entire first six months of 2012. The Company also experienced shut-in production due to a pipeline leak at a major gas plant causing the operator to shut-in production of approximately 75 BOE per day for the month of April.

The Company experienced less flush production to offset natural production declines in the second quarter as only one new well came on production in the middle of June. This was primarily due to spring breakup and high levels of precipitation limiting road access to well sites for drilling and service rigs, along with reducing oil trucking at some of the Company's facilities that are not pipeline connected.

During the first six months of 2012 the Company placed two gross (two net) wells on production that were drilled in 2011, on production and drilled eight gross (7.6 net) wells in the first half of 2012, of which two were placed on production in the first quarter of 2012 and one was placed on production in the second quarter of 2012. The remaining five (4.6 net) wells will be placed on production in the third quarter. Two gross (0.30 net) non-operated wells were drilled in Q1 2012 and were placed on production in mid-April.

For the remainder of 2012, the Company will continue with its field optimization program to redirect its natural gas pipelines to alleviate existing pressure constraints that are due to increased production from increased drilling activity in the Pembina field. With the drilling success the Company experienced with horizontal drilling in the halo areas of the Pembina field, the Company has commenced drilling in the main pool. Along with infill drilling in the main Pembina pool, the Company will also be strategically looking to drill in locations within its Pembina field that do not have infrastructure issues.

In June 2012, the Company purchased certain oil and gas producing and prospective non-producing assets in the Willesden Green area (Willesden Green Assets). The property is currently averaging 250 BOE per day net to the Company (see liquidity section).

Oil and Gas Sales, Net of Royalties

	Three months ended			Six months ended	
($ 000s)	**June 30, 2012**	March 31, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Revenue – oil and gas sales	**31,049**	36,893	44,754	**67,942**	82,924
Less:					
Crown royalties	**(2,203)**	(3,146)	(3,542)	**(5,349)**	(5,895)
Freehold, gross overriding and other royalties	**(846)**	(1,450)	(1,248)	**(2,296)**	(2,259)
Total royalties	**(3,049)**	(4,596)	(4,790)	**(7,645)**	(8,154)
Oil and gas sales, net of royalties	**28,000**	32,297	39,964	**60,297**	74,770
Average Realized Prices ($):					
Crude oil (per barrel)	**80.93**	88.48	101.30	**84.87**	93.11
NGLs (per barrel)	**53.02**	60.29	65.19	**56.62**	60.47
Natural gas (per MCF)	**1.96**	2.32	4.15	**2.15**	4.14
Crown royalties - percentage of revenue	**7.1**	8.5	7.9	**7.9**	7.1
Freehold, gross overriding and other royalties - percentage of revenue	**2.7**	3.9	2.8	**3.4**	2.7
Royalties – percentage of revenue	**9.8**	12.5	10.7	**11.3**	9.8
Royalties $ per BOE	**5.55**	7.85	8.26	**6.74**	7.08

Revenue from petroleum and natural gas sales decreased by $14,982,000 or eighteen percent in the first half of 2012 compared to the corresponding period in 2011, due to a nine percent decrease in oil production along with a nine percent decrease in crude oil prices and a 48 percent decrease in natural gas prices which was partially offset by increased natural gas production of 11 percent.

Pricing for crude oil decreased by approximately nine percent in the first half of 2012 compared to the first half of 2011 due to a continued slide in crude oil prices and large differentials between West Texas Intermediate (WTI) and Edmonton par (which is the price the Company receives for its oil sales). These large price differentials of between $5 and $25 per barrel (compared to approximately $2.50 in the first half of 2011) are a result of increases in North American production volumes resulting in insufficient pipeline capacity to transport the increased production volumes to preferred markets. Under normal circumstances, the average price of NGLs tracks the price of oil. However, in the latter part of the second quarter of 2012, changes in the supply and demand for NGLs negatively affected the relationship between the price of NGLs and the price of oil.

Quarter over quarter saw a decrease in revenues of $5,844,000, due to a sixteen percent decrease in crude oil prices resulting from a lower WTI price and higher differentials with Edmonton par during 2012. In addition, pipeline apportionments reduced average crude oil prices received as the Company was forced to sell a portion of its crude oil inventory at lower spot prices instead of the purchasers' price because its field tanks were completely filled in the first quarter of 2012. The Company also experienced a 16 percent decrease in natural gas prices.

The Company's product split on a revenue basis for the first six months of 2012 is approximately 93 percent weighted towards crude oil and NGLs. This ratio will likely remain similar as long as oil and liquid prices remain high and natural gas prices remain extremely low.

Bonterra's financial results are significantly influenced by fluctuations in commodity prices, including price differentials. The following table shows specifically the select market benchmark prices and foreign exchange rates in the last six quarters to assist in understanding volatility in prices and foreign exchange rates that have impacted Bonterra's business.

	Q2 -2012	Q1-2012	Q4-2011	Q3-2011	Q2-2011	Q1-2011
Crude oil						
WTI (U.S.$/bbl)	**93.49**	102.93	94.06	89.76	102.56	94.10
Bonterra average realized price (Cdn$/bbl)	**80.93**	88.48	96.25	88.21	101.30	85.02
Natural gas						
AECO (Cdn $/mcf)	**1.89**	2.15	3.19	3.65	3.86	3.79
Bonterra average realized price (Cdn $/mcf)	**1.96**	2.32	3.34	3.91	4.15	4.12
Foreign exchange						
Cdn$/U.S.$	**1.0102**	1.0012	1.0231	0.9802	0.9677	0.9860

In 2012, the price differentials between Bonterra's average realized price and WTI widened substantially from prices received in 2011, due in part to refinery outages and seasonal turnarounds as well as transportation capacity issues and quality adjustments.

Although the natural gas pricing environment has been steadily weakening since early 2011, some recoveries are starting to be seen with AECO prices reaching $2.37 per mcf in July. AECO prices averaged $1.89 per mcf for Q2 2012, while Bonterra's realized natural gas price is normally higher than AECO pricing due to higher heating content per mcf.

Bonterra manages its fluctuating crude oil pricing differentials and pipeline apportionments as much as possible by controlling crude oil inventory levels and minimizing production interruption costs due to restarting shut-in wells. Industry projections for the remainder of 2012 are that apportionments will be more favourable and crude oil pricing differentials will be lower which may assist the Company in selling its production and crude oil inventory for more favourable prices.

Royalties paid by the Company consist primarily of Crown royalties paid to the Provinces of Alberta, Saskatchewan and British Columbia. Approximately half of the Company's production is from low productivity wells and therefore has reduced Crown royalty rates. The Company's average Crown royalty rate is approximately 7.9 percent for the six months ended June 30, 2012 compared to 7.1 percent for the comparable period one year ago. The increase is primarily due to the number of horizontal Cardium wells no longer being eligible for the initial five percent royalty rate due to accumulated production thresholds being reached or the expiry of the time allowed to reach the threshold levels, partially offset by lower commodity prices for crude oil and natural gas.

Quarter over quarter saw Crown royalties decrease to 7.1 percent in Q2 2012 compared to 8.5 percent for Q1 2012. Crown royalty decreases for the second quarter of 2012 compared to Q1 2012 were primarily due to the previous year's custom processing and operating cost adjustments to natural gas crown royalties received in May. Oil crown royalties also decreased due to lower commodity prices for crude oil and oil production volumes.

The Company's average non-crown royalty rate was 3.4 percent of oil and gas sales for the six months ended June 30, 2012 compared to 2.7 percent one year ago. The percent increase in non-crown royalties for the six months of 2012 compared to the first six months of 2011 is primarily due to an increased number of wells subject to freehold royalties, in addition to a negative $265,000 freehold royalty adjustment recorded in the first quarter of 2012. The percent decrease in non-crown royalties quarter over quarter is primarily due to decreased production and commodity prices for crude oil and natural gas liquids, in addition to a negative freehold royalty adjustment.

Other Income

	Three months ended			Six months ended	
($ 000s)	**June 30, 2012**	March 31, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Gain on sale of property	**2,500**	1,109	-	**3,609**	4
Gain on sale of investments	**-**	445	-	**445**	1,854
Investment income	**66**	6	13	**72**	14
Administrative income	**83**	82	83	**165**	165
	2,649	1,642	96	**4,291**	2,037

During the second quarter of 2012, the Company disposed of a portion of its Central Alberta Tomahawk property. The proceeds of disposition were cash of $2,500,000. At the time of disposition, the property had no carrying value which results in a gain on sale equal to its proceeds. The Company maintained a non-operated 50 percent interest in the Tomahawk property. In this area the purchaser has existing infrastructure, which will be beneficial as four new wells will be drilled in the second half of 2012 and Bonterra has negotiated favourable rates to use the infrastructure for its share of production.

During the first quarter of 2012 the Company disposed of a portion of its Central Alberta Redwater property for cash proceeds of $1,109,000, equal to the accounting gain, as this property was recorded with no carrying value. The Company also disposed of a portion of its investments for gross proceeds of $1,231,000 resulting in an accounting gain of $445,000.

During the same six month period in 2011, the Company disposed of a portion of its investments for gross proceeds of $3,404,000 resulting in an accounting gain of $1,854,000. The market value of the investments held by the Company is in excess of $5,600,000 at June 30, 2012 (December 31, 2011 - $6,800,000). The decrease in value is mainly due to the sale of $1,231,000 of investments in Q1 2012.

Production Costs

	Three months ended			Six months ended	
($ 000s except $ per BOE)	**June 30, 2012**	March 31, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Production costs	**8,767**	9,056	9,479	**17,823**	17,804
$ per BOE	**15.96**	15.46	16.35	**15.70**	15.46

Total production costs for the first six months of 2012 have remained relatively the unchanged from the same period a year ago. On a per BOE basis, production costs have increased by two percent mainly due to prior period equalizations amounting to $700,000 record in the first quarter of 2012, along with $500,000 incurred in the second quarter of 2012 on a pipeline break and clean up, which were partially offset by lower costs resulting from tie-ins to different facilities.

There was a three percent decrease in production costs during the second quarter of 2012 when compared to the first quarter of 2012. On a per BOE basis, the Company had a three percent increase mainly due to the pipeline repairs in the second quarter over lower production volumes.

Approximately half of the Company's production comes primarily from low productivity wells. These wells generally have higher production 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 may lower production costs on a unit-of-production basis.

General and Administration (G&A) Expense

	Three months ended			Six months ended	
($ 000s except $ per BOE)	**June 30, 2012**	March 31, 2012	June 30, 2011	**June 30, 2011**	June 30, 2011
Employee compensation expense	**1,102**	1,062	1,273	**2,164**	2,533
Office and administration expense	**455**	311	446	**766**	1,021
	1,557	1,373	1,719	**2,930**	3,554
$ per BOE	**2.83**	2.34	2.96	**2.58**	3.09

Total G&A expense decreased 18 percent to $2,930,000 for the six months ended June 30, 2012 from $3,554,000 in the same period in 2011.

The decrease in employee compensation expense of $369,000 for the six months ended June 30, 2012 compared to the same period one year ago was primarily due to a decrease in accrued bonuses, resulting from lower 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.

Quarter over quarter employee compensation expense remained relatively unchanged due to temporary additional staffing requirements in the second quarter of 2012.

The decrease in office and administration expense for the six months ended June 30, 2012 related primarily to decreased engineering consulting fees, office rent and regulatory filing and printing fees compared to the same period in 2011. This was partially offset by increased accounting consulting fees and a reduction in overhead charged to partners.

Quarter over quarter office and administration expense increased by $144,000 related to higher engineering and accounting consulting fees, software support, regulatory printing and filing fees and bank fees relating to the increase of the bank facility.

Finance Costs

	Three months ended			Six months ended	
($ 000s except $ per BOE)	**June 30, 2012**	March 31, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Interest on long-term debt	**757**	578	654	**1,335**	1,223
Other interest	**447**	302	302	**749**	600
Interest expense	**1,204**	880	956	**2,084**	1,823
$ per BOE	**2.19**	1.50	1.65	**1.84**	1.58
Unwinding of the discounted value of decommissioning liabilities	**217**	218	204	**435**	410
Total finance costs	**1,421**	1,098	1,160	**2,519**	2,233

Interest on long-term debt increased nine percent in the first six months 2012 compared to the first six months of 2011 as the Company increased the bank debt in the second quarter of 2012 for the Willesden Green Asset purchase of $17,108,000 and decreased cash flows while maintaining its capital drilling program and monthly dividends.

Other interest relates to amounts paid to related parties (see related party transactions), a $15,000,000 subordinated promissory note from a private investor and a onetime interest charge of $145,000 for the period between the effective date of March 1, 2012 and the closing date of June 7, 2012 on the Willesden Green Asset purchase.

As at June 30, 2012, the Company has a bank facility consisting of $120,000,000 syndicated revolving credit facility and a $20,000,000 non-syndicated revolving credit facility. Amounts drawn under the facility at June 30, 2012 were $114,747,000 (December 31, 2011 - $69,916,000). Amounts borrowed under the credit facility at June 30, 2012 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 revolving credit facility provided that the loan is revolving to April 25, 2013 and with a maturity date of April 25, 2014 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 June 30, 2012 (December 31, 2011 - $400,000). 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 $140,000,000 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 cash flow for the preceding four fiscal quarters.

At June 30, 2012, the Company is in compliance with all covenants.

Share-Based Payments

	Three months ended			Six months ended	
($ 000s)	**June 30, 2012**	March 31, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
	865	1,072	772	**1,937**	917

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 $2,085,000 will be recorded for the balance of 2012, $1,890,000 for 2013, $221,000 for 2014 and $37,000 for 2015.

During the first six months of 2012, the Company issued 208,000 stock options to employees, directors and consultants with an estimated fair value of $1,144,000 ($5.50 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 1.1 percent, an expected weighted average volatility of 32.8 percent, an expected weighted average life of 2.0 years and a weighted average dividend yield of 6.7 percent. Also, of the 131,000 options that were cancelled in the first six months of the year 113,000 were forfeited causing $337,000 of previously recorded share-based payments expense to be reversed and 18,000 options were cancelled causing $84,000 of share-based payments expense to be recognized immediately.

Depletion and Depreciation

	Three months ended			Six months ended	
($ 000s)	**June 30, 2012**	March 31, 2012	**June 30, 2011**	**June 30, 2012**	**June 30, 2011**
	7,298	7,628	**6,544**	**14,926**	**13,023**

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 developed reserve life which includes proved plus probable developed reserves only. The Company adjusted its estimate from using a proved developed reserve base to total developed reserve base to better reflect the asset life expectancy of the Company's Pembina Cardium and Willesden Green properties through the application of the horizontal drilling program.

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 six months ended June 30, 2012 over June 30, 2011. The increase in depletion was the result of a significant decommissioning liability adjustment of $11,354,000 due to a decrease in the risk free discount rate, thereby increasing property, plant and equipment in the fourth quarter of 2011.

Depletion and depreciation decreased by four percent in the second quarter of 2012 over the first quarter of 2012. This was mainly due to decreased production partially offset by a decommissioning liability adjustment of $1,889,000, due to a further decrease in the risk free discount rate, and the Willesden Green Asset purchase in early June.

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	36,815
Eligible capital expenditures	7	6,147
Canadian oil and gas property expenditures	10	28,859
Canadian development expenditures	30	111,284
Canadian exploration expenditures	100	11,174
Income tax losses carried forward [1]	100	222,697
		416,976

[1] Federal income tax losses carried forward expire in the following years; 2024 - $2,926,000, 2025 - $7,532,000, 2026 - $46,671,000, 2027 - $117,189,000, 2028 - $35,248,000, 2029 - $13,131,000.

The Company also has $27,670,000 (December 31, 2011 - $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 $133,796,000 (December 31, 2011 - $137,289,000) 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			Six months ended	
($ 000s except $ per share)	**June 30, 2012**	March 31, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Net earnings	**9,201**	10,182	14,533	**19,383**	28,157
$ per share – basic	**0.47**	0.52	0.75	**0.98**	1.46
$ per share – diluted	**0.46**	0.51	0.74	**0.98**	1.43

Net earnings decreased in the first six months of 2012 by $8,774,000 or 31 percent from the corresponding 2011 period. Decreased net earnings resulted primarily from lower crude oil and natural gas prices, decreased crude oil production and an increase in depletion and depreciation and share-based payments expense. This increase was partially offset by a gain on sale of assets and a decrease in deferred tax expense.

The decrease in net earnings for Q2 2012 compared to Q1 2012 is the result of lower crude oil prices and production, which was partially offset by decreased royalty expense and a gain on sale of a portion of its Tomahawk oil and gas property.

Other Comprehensive Income

Other comprehensive income for the six months of 2012 consists of an unrealized loss before tax on investments (including investments in a related party) of $176,000 relating to a decrease in the investments' fair value (June 30, 2011 – unrealized gain of $872,000 relating to an increase in the investments' fair value). The Company also disposed of a portion of these investments in the first quarter of 2012 for a realized gain before tax of $445,000 (June 30, 2011 - $1,854,000). 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			Six months ended	
($ 000s except $ per share)	**June 30, 2012**	March 31, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Cash flow from operations	**14,727**	21,698	25,465	**36,425**	49,499
$ per share – basic	**0.74**	1.10	1.32	**1.85**	2.57
$ per share – diluted	**0.74**	1.10	1.29	**1.84**	2.52

In the first six months of 2012, cash flow from operations decreased $13,074,000 or 26 percent compared to the first six months of 2011. This was primarily due to decreased crude oil production and lower overall oil and gas commodity prices, partially offset by lower crown royalties and G&A expenditures. The quarter over quarter decrease of $6,971,000 or 32 percent was due primarily to decreased crude oil production and oil and gas commodity prices, an increase in financing costs and G&A expenditures partially offset by a decrease in royalties and production costs.

Cash Netback

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

	Three months ended			Six months ended	
$ per BOE	**June 30, 2012**	March 31, 2012	June 30, 2011	**June 30, 2012**	June 30, 2011
Production volumes (BOE)	**549,348**	585,829	579,929	**1,135,177**	1,151,388
Gross production revenue	**$ 52.52**	$ 62.98	$ 77.17	**$ 59.85**	$ 72.02
Royalties	**(5.55)**	(7.85)	(8.26)	**(6.74)**	(7.08)
Field operating costs	**(15.96)**	(15.46)	(16.35)	**(15.70)**	(15.46)
Field netback	**35.01**	39.67	52.56	**37.41**	49.48
General and administrative	**(2.83)**	(2.34)	(2.96)	**(2.58)**	(3.09)
Interest and other	**(1.94)**	(1.35)	(1.49)	**(1.63)**	(1.43)
Cash netback	**$ 30.24**	$ 35.98	$ 48.11	**$ 33.20**	$ 44.96

Related Party Transactions

The Company holds 689,682 (December 31, 2011 – 689,682) common shares in Geomark Exploration Ltd. (Geomark) which have a fair market value as of June 30, 2012 of $490,000 (December 31, 2011 - $566,000). Geomark is a publically traded minerals exploration company listed on the TSX Venture Exchange under the symbol GME. The Company has common directors and some common management with Geomark. In addition, Geomark owns 204,633 (December 31, 2011 – 204,633) common shares in Bonterra. Bonterra's investment in Geomark represents a 1.3 percent ownership in the outstanding common shares of Geomark.

Geomark paid a management fee to the Company of $135,000 (June 30, 2011 - $135,000). 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 June 30, 2012, Geomark owed the Company $34,000 (December 31, 2011 - $74,000).

As at June 30, 2012, Geomark has loaned the Company $20,000,000 (December 31, 2010 – $20,000,000). The loan bears interest at Canadian chartered bank prime less 5/8 of a percent and has no set repayment terms but is payable on demand. Security under the debenture is over all of the Company's assets and is subordinated to any and all claims in favour of the syndicate of senior lenders providing credit facilities to the Company. The loan 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 six months of 2012 was $237,000 (June 30, 2011 - $236,000). 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 some common directors and some common management with the Company. Pine Cliff trades on the TSX Venture Exchange. Pine Cliff paid a management fee to the Company of $30,000 (June 30, 2011 - $30,000). Services provided by the Company include executive services, accounting services, oil and gas administration and office administration. All services performed are charged at estimated fair value. The Company has no share ownership in Pine Cliff. As at June 30, 2012, the Company had an account receivable from Pine Cliff of $3,000 (December 31, 2011 – $4,000).

As at June 30, 2012, the Company's CEO, Chairman of the Board and major shareholder has loaned the Company $12,000,000 (December 31, 2011 - $12,000,000). The loan bears interest at Canadian chartered bank prime less 5/8th of a percent and has no set repayment terms but is payable on demand. Security under the debenture is over all of the Company's assets and is subordinated to any and all claims in favour of the syndicate of senior lenders providing credit facilities to the Company. The loan can only be repaid should the Company have sufficient available borrowing limits under the Company's credit facility. Interest paid on this loan during the first six months of 2012 was $142,000 (June 30, 2011 - $141,000). This loan results in a substantial benefit to Bonterra as the interest paid to the CEO by Bonterra is lower than bank interest.

Liquidity and Capital Resources

During the first six months of 2012, the Company incurred capital costs of $29,593,000 (2011 - $26,216,000 net of drilling credits) net of proceeds on disposal of property, plant and equipment. The costs relate primarily to the drilling of eight gross (7.6 net) Pembina and Willesden Green Cardium horizontal wells of which three of these wells were completed, equipped and tied-in prior to June 30, 2012. The remaining five (4.6 net) wells are expected to be fraced, equipped and tied-in in the third quarter.

In June 2012, the Company purchased Willesden Green Assets for consideration of $17,108,000, which included oil and gas properties and equipment. The purchase was financed from the Company's bank facility. The assets acquired compliment the Company's current asset base as these properties are in the Company's core area the Pembina and Willesden Green fields in Alberta, Canada. The purchase will add 52.3 gross (10.5 net) sections of land, 191 gross (37 net) potential Cardium formation drilling locations along with the current 250 BOE per day of production net to the Company. These lands are underdeveloped as horizontal well redevelopment in this area has just begun.

The Company currently has plans to spend $65,000,000 (excluding acquisitions) mainly on its 2012 Pembina Cardium horizontal well program. Bonterra anticipates funding the 2012 capital program from 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 June 30, 2012, the Company has a bank facility consisting of a $120,000,000 syndicated revolving credit facility and a $20,000,000 non-syndicated revolving credit facility. Amounts drawn under these facilities at June 30, 2012 were $114,747,000 (December 31, 2011 - $69,916,000). The interest rates on the outstanding debt as of June 30, 2012 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, 2012	19,571,316	142,567
Options exercised	225,725	4,627
Transfer of contributed surplus to share capital		296
Balance, June 30, 2012	19,797,041	147,490

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 1,979,704 (December 31, 2011 – 1,957,131) 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 June 30, 2012 and December 31, 2011, and changes during the six month and twelve month periods ended on those dates is presented below:

	June 30, 2012		December 31, 2011	
	Options	**Weighted-Average Exercise Price**	Options	Weighted-Average Exercise Price
Outstanding at beginning of period	**1,468,225**	**$ 46.63**	747,000	$ 20.56
Options granted	**208,000**	**46.88**	1,142,000	54.54
Options exercised	**(225,725)**	**20.50**	(351,775)	20.32
Options forfeited or cancelled	**(131,000)**	**54.12**	(69,000)	29.39
Outstanding at end of period	**1,319,500**	**$ 50.40**	1,468,225	$ 46.63
Options exercisable at end of period	**158,500**	**$ 31.25**	333,225	$ 20.75

The following table summarizes information about options outstanding at June 30, 2012:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number outstanding at June 30, 2012	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at June 30, 2012	Weighted-average exercise price
$ 20.50	112,500	0.4 years	$ 20.50	112,500	$ 20.50
40.00 – 49.00	121,000	3.2 years	42.58	3,000	48.60
50.00 – 59.00	1,086,000	2.7 years	54.36	43,000	58.18
$ 20.50 – $ 59.00	1,319,500	2.5 years	$ 50.40	158,500	$ 31.25

Dividend Policy

For the six months ended June 30, 2012, Bonterra paid dividends of $30,752,000 ($1.56 per share) compared to $28,562,000 ($1.48 per share) in the same period in 2011. 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 (DC&P) have been designed to ensure the information required to be disclosed by the Company is accumulated and communicated to the Company's Management, as appropriate, to allow timely decisions regarding required disclosures. The Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), together with management, have concluded, based on their evaluation as of the end of the period covered by the interim filing that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the issuer, is made known to them by others within the Company. It should be noted that while the Company's CEO and CFO believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objective of the control system is met.

Internal Control Update

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

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.

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 have approved the financial statements as presented in this interim report.

CONDENSED STATEMENTS OF FINANCIAL POSITION

As at (unaudited) ($ 000s)	Note	**June 30,** **2012**	December 31, 2011
Assets			
Current			
Accounts receivable		**12,602**	17,094
Crude oil inventory		**524**	1,092
Prepaid expenses		**2,598**	1,688
Investments		**5,121**	6,266
		20,845	26,140
Investment in related party	3	**490**	566
Exploration and evaluation assets		**2,046**	1,989
Property, plant and equipment	5	**314,263**	274,361
Investment tax credit receivable	6	**27,670**	27,670
Deferred tax asset	6	**28,458**	33,450
		393,772	364,176
Liabilities			
Current			
Accounts payable and accrued liabilities		**15,927**	30,716
Due to related parties	7	**32,000**	32,000
Subordinated promissory note	8	**15,000**	15,000
		62,927	77,716
Bank debt	9	**114,747**	69,916
Decommissioning liabilities		**39,806**	34,904
		217,480	182,536
Shareholders' equity			
Share capital	10	**147,490**	142,567
Contributed surplus		**6,943**	5,302
Accumulated other comprehensive income		**2,119**	2,662
Retained earnings		**19,740**	31,109
		176,292	181,640
		393,772	364,176

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

For the periods ended June 30 (unaudited)

		Three Months		Six Months	
($ 000s, except $ per share)	Note	**2012**	2011	**2012**	2011
Revenue					
Oil and gas sales, net of royalties	11	**28,000**	39,964	**60,297**	74,770
Other income	12	**2,649**	96	**4,291**	2,037
		30,649	40,060	**64,588**	76,807
Expenses					
Production costs		**8,767**	9,479	**17,823**	17,804
Office and administration		**455**	446	**766**	1,021
Employee compensation		**1,102**	1,273	**2,164**	2,533
Finance costs		**1,421**	1,160	**2,519**	2,233
Share-based payments		**865**	772	**1,937**	917
Depletion and depreciation		**7,298**	6,544	**14,926**	13,023
		19,908	19,674	**40,135**	37,531
Earnings before income taxes		**10,741**	20,386	**24,453**	39,276
Deferred income taxes		**1,540**	5,853	**5,070**	11,119
Net earnings for the period		**9,201**	14,533	**19,383**	28,157
Other comprehensive loss					
Unrealized gains (losses) on investments		**(536)**	(782)	**(176)**	872
Deferred taxes on unrealized losses (gains) on investments		**67**	103	**22**	(66)
Realized gains on investments transferred to net earnings		**-**	-	**(445)**	(1,854)
Deferred taxes on realized gains on investments transferred to net earnings		**-**	-	**56**	246
Other comprehensive loss for the period		**(469)**	(679)	**(543)**	(802)
Comprehensive income for the period		**8,732**	13,854	**18,840**	27,355
Net earnings per share - basic	10	**0.47**	0.75	**0.98**	1.46
Net earnings per share – diluted	10	**0.46**	0.74	**0.98**	1.43
Comprehensive income per share - basic	10	**0.44**	0.72	**0.96**	1.42
Comprehensive income per share – diluted	10	**0.44**	0.70	**0.95**	1.39

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENTS OF CASH FLOWS

For the periods ended June 30 (unaudited)

		Three Months		Six Months	
($ 000s)	**Note**	**2012**	2011	**2012**	2011
Operating activities					
Earnings before income taxes		**10,741**	20,386	**24,453**	39,276
Items not affecting cash					
Share-based payments		**865**	772	**1,937**	917
Depletion and depreciation		**7,298**	6,544	**14,926**	13,023
Unwinding of the discounted value of decommissioning liabilities		**217**	204	**435**	410
Gain on sale of property		**(2,500)**	-	**(3,609)**	(4)
Gain on sale of investments		**-**	-	**(445)**	(1,854)
Investment income		**(66)**	(13)	**(72)**	(14)
Interest expense		**1,204**	956	**2,084**	1,823
Change in non-cash working capital					
Accounts receivable		**1,889**	(813)	**4,987**	(1,661)
Crude oil inventory		**217**	21	**377**	21
Prepaid expenses		**(1,024)**	(1,068)	**(910)**	(619)
Accounts payable and accrued liabilities		**(2,780)**	(302)	**(5,497)**	480
Decommissioning expenditures		**(130)**	(266)	**(157)**	(476)
Interest paid		**(1,204)**	(956)	**(2,084)**	(1,823)
Cash provided by operating activities		**14,727**	25,465	**36,425**	49,499
Financing activities					
Increase in bank debt		**39,204**	2,040	**44,831**	2,222
Stock option proceeds		**1,107**	307	**4,627**	2,414
Dividends		**(15,420)**	(14,690)	**(30,752)**	(28,562)
Cash provided by (used in) financing activities		**24,891**	(12,343)	**18,706**	(23,926)
Investing activities					
Investment income received		**66**	13	**72**	14
Exploration and evaluation expenditures		**(51)**	(103)	**(57)**	(252)
Property, plant and equipment expenditures		**(10,629)**	(5,769)	**(33,145)**	(25,972)
Proceeds on sale of property	**5**	**2,500**	-	**3,609**	8
Purchase of investments		**-**	-	**(185)**	-
Proceeds on sale of investments		**-**	-	**1,231**	3,404
Acquisition	**4**	**(17,108)**	-	**(17,108)**	-
Change in non-cash working capital					
Accounts payable and accrued liabilities		**(14,404)**	(10,825)	**(9,292)**	(4,489)
Accounts receivable		**8**	3,562	**(256)**	1,714
Cash used in investing activities		**(39,618)**	(13,122)	**(55,131)**	(25,573)
Net cash inflow		**-**	-	**-**	-
Cash, beginning of period		**-**	-	**-**	-
Cash, end of period		**-**	-	**-**	-

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF CHANGES IN EQUITY

For the periods ended (unaudited)

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

	Number of shares outstanding (Note 10)	Share Capital (Note 10)	Contributed Surplus [1]	Accumulated other comprehensive income [2]	Retained Earnings	Total Shareholders' Equity
January 1, 2011	19,219,541	135,030	3,135	5,702	46,306	190,173
Share-based payments			917			917
Exercise of options	118,300	2,414				2,414
Transfer to share capital on exercise of options		133	(133)			-
Comprehensive income (loss)				(802)	28,157	27,355
Dividends					(28,562)	(28,562)
June 30, 2011	19,337,841	137,577	3,919	4,900	45,901	192,297
Share-based payments			1,637			1,637
Exercise of options	233,475	4,736				4,736
Transfer to share capital on exercise of options		254	(254)			-
Comprehensive income (loss)				(2,238)	15,451	13,213
Dividends					(30,243)	(30,243)
December 31, 2011	19,571,316	142,567	5,302	2,662	31,109	181,640
Share-based payments			1,937			1,937
Exercise of options	225,725	4,627				4,627
Transfer to share capital on exercise of options		296	(296)			-
Comprehensive income (loss)				(543)	19,383	18,840
Dividends					(30,752)	(30,752)
June 30, 2012	19,797,041	147,490	6,943	2,119	19,740	176,292

(1) Contributed surplus comprises of share-based payments

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

See accompanying notes to these condensed financial statements

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

As at June 30, 2012 and December 31, 2011 and for the three and six months ended June 30, 2012 and 2011 (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 financial statements were authorized for issue by the Company's Board of Directors on August 14, 2012.

2. BASIS OF PREPARATION

a) Statement of Compliance

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

The accounting policies and method of computation followed in the preparation of the condensed financial statements are the same as those followed in the preparation of Bonterra's 2011 audited annual financial statements except as described below. These condensed financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the 2011 audited annual financial statements, which have been prepared in accordance with International Financial Reporting Standards.

b) Change in Accounting Estimate

Property, Plant and Equipment
On January 1, 2012, the Company prospectively began depleting oil and gas properties using the unit-of-production method over their proved plus probable developed reserve life (Total Developed Method), a change from the unit–of-production method over their proved developed reserve life (Proved Developed Method). The change of estimate was due to the Total Developed Method providing a better reflection of the estimated service life of the related assets. For the first six months of 2012, the Company recorded less depletion and depreciation of $4,884,000 under the Total Developed Method, compared to what would have been recorded using the Proved Developed Method. The Company believes it is not practical to estimate the effect on depletion and depreciation expense for future periods.

3. INVESTMENT IN RELATED PARTY

The investment consists of 689,682 (December 31, 2011 – 689,682) common shares in Geomark Exploration Ltd. (Geomark), a company with common directors and some common management with Bonterra. The investment in Geomark represents 1.3 percent ownership in the outstanding common shares of Geomark and is recorded at fair market value. The common shares of Geomark trade on the TSX Venture Exchange under the symbol GME.

In addition, Geomark owns 204,633 (December 31, 2011 – 204,633) common shares in Bonterra.

4. ACQUISITION

On June 7, 2012, Bonterra acquired certain oil and natural gas assets in the Willesden Green area of Alberta (Willesden Green Assets) for cash consideration of $17,108,000. The results of the Willesden Green Assets have been included in the financial statements since that date. The Willesden Green Assets contributed oil and gas sales, net of royalties, of $277,000 and operating expenses of $71,000 for the period from June 7, 2012 to June 30, 2012. If the acquisition had occurred on January 1, 2012, total oil and gas sales, net of royalties, would have been approximately $1,909,000 and total operating expenses would have been approximately $543,000 for the six months ended June 30, 2012. Bonterra does not believe it is practical to estimate the effect on future periods.

The acquisition has been accounted for using the acquisition method, and the purchase price was allocated to the assets acquired and the liabilities assumed as follows:

Net assets acquired:	
Property, plant and equipment	19,603
Decommissioning liabilities	(2,735)
Working capital	240
Total	17,108

Consideration:	
Cash	17,108
Total purchase price	17,108

5. PROPERTY, PLANT AND EQUIPMENT

Cost ($ 000s)	**Oil and gas properties**	**Production facilities**	**Furniture, fixtures & other equipment**	**Total property, plant & equipment**
Balance at December 31, 2011	**344,193**	**77,611**	**1,510**	**423,314**
Additions	29,412	5,589	33	35,034
Acquisition	16,117	3,486	-	19,603
Balance at June 30, 2012	**389,722**	**86,686**	**1,543**	**477,951**

Accumulated Depletion and Depreciation ($ 000s)	**Oil and gas properties**	**Production facilities**	**Furniture, fixtures & other equipment**	**Total property, plant & equipment**
Balance at December 31, 2011	**(116,521)**	**(31,289)**	**(1,143)**	**(148,953)**
Depletion and depreciation	(12,160)	(2,731)	(35)	(14,926)
Other	191	-	-	191
Balance at June 30, 2012	**(128,490)**	**(34,020)**	**(1,178)**	**(163,688)**

Carrying amounts as at: **($ 000s)**				
December 31, 2011	227,672	46,322	367	274,361
June 30, 2012	**261,232**	**52,666**	**365**	**314,263**

Impairment

The impairment of property, plant and equipment assets and any subsequent reversal of such impairment losses are recognized in the statement of comprehensive income. There were no impairment losses recorded in the statement of comprehensive income for the six months ended June 30, 2012 and 2011.

In January 2012, the Company disposed of its Central Alberta Red Water property. The proceeds of disposition was cash of $1,109,000. At the time of disposition, the property had no carrying value resulting in a gain on sale equal to its proceeds.

In June 2012, the Company disposed a portion of its Central Alberta Tomahawk property. The proceeds of disposition was cash of $2,500,000. At the time of disposition, the property had no carrying value resulting in a gain on sale equal to its proceeds.

6. INCOME TAXES

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

($ 000s)	Rate of Utilization (%)	Amount
Undepreciated capital costs	20-100	36,815
Eligible capital expenditures	7	6,147
Canadian oil and gas property expenditures	10	28,859
Canadian development expenditures	30	111,284
Canadian exploration expenditures	100	11,174
Income tax losses carried forward [1]	100	222,697
		416,976

[1] Federal income tax losses carried forward expire in the following years; 2024 - $2,926,000, 2025 - $7,532,000, 2026 - $46,671,000, 2027 - $117,189,000, 2028 - $35,248,000, 2029 - $13,131,000.

The Company has $27,670,000 (December 31, 2011 - $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 $133,796,000 (December 31, 2011 - $137,289,000) of capital loss carry forwards which can only be claimed against taxable capital gains.

7. TRANSACTIONS WITH RELATED PARTIES

As at June 30, 2012, the Company's CEO, Chairman of the Board and major shareholder has loaned the Company $12,000,000 (December 31, 2011 - $12,000,000). The loan bears interest at Canadian chartered bank prime less 5/8th of a percent and has no set repayment terms but is payable on demand. Security under the debenture is over all of the Company's assets and is subordinated to any and all claims in favour of the syndicate of senior lenders providing credit facilities to the Company. Interest paid on this loan during the first six months of 2012 was $142,000 (June 30, 2011 - $141,000).

As at June 30, 2012, Geomark has loaned the Company $20,000,000 (December 31, 2011 – $20,000,000). The loan bears interest at Canadian chartered bank prime less 5/8 of a percent and has no set repayment terms but is payable on demand. Security under the debenture is over all of the Company's assets and is subordinated to any and all claims in favour of the syndicate of senior lenders providing credit facilities to the Company. Interest paid on this loan during the first six months of 2012 was $237,000 (June 30, 2011 - $236,000).

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

The Company received a management fee from Geomark of $135,000 for the six months ended June 30, 2012 (2011 - $135,000) for management services and office administration. This fee has been included in other income. As at June 30, 2012, the Company had an account receivable from Geomark of $34,000 (December 31, 2011 - $74,000).

The Company received a management fee of $30,000 for the six months ended June 30, 2012 (2011 - $30,000) for management services and office administration from Pine Cliff Energy Ltd. (Pine Cliff) a company with some common directors and some common management with Bonterra. This fee has been included in other income. As at June 30, 2012, the Company had an account receivable from Pine Cliff of $3,000 (December 31, 2011 - $4,000).

8. SUBORDINATED PROMISSORY NOTE

As at June 30, 2012, Bonterra has borrowed $15,000,000 (December 31, 2011 - $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 and is payable after thirty days written notice by either party. 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 six months of 2012 was $224,000 (June 30, 2011 - $223,000).

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

9. BANK DEBT

As at June 30, 2012, the Company has a bank facility consisting of $120,000,000 syndicated revolving credit facility and a $20,000,000 non-syndicated revolving credit facility. Amounts drawn under the facility at June 30, 2012 were $114,747,000 (December 31, 2011 - $69,916,000). Amounts borrowed under the credit facility at June 30, 2012 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 revolving credit facility provided that the loan is revolving to April 25, 2013 and with a maturity date of April 25, 2014 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 June 30, 2012 (December 31, 2011 - $400,000). 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 $140,000,000 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 cash flow for the preceding four fiscal quarters.

At June 30, 2012, the Company is in compliance with all covenants.

10. SHAREHOLDERS' EQUITY

Authorized

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

	June 30, 2012	
Issued and fully paid – common shares	**Number**	**Amount ($ 000s)**
Balance, beginning of year	**19,571,316**	**142,567**
Issued pursuant to Company share option plan	**225,725**	**4,627**
Transfer from contributed surplus to share capital		**296**
Balance, end of period	**19,797,041**	**147,490**

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

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

	Three Months		Six Months	
	2012	2011	**2012**	2011
Basic shares outstanding	**19,768,307**	19,328,292	**19,715,379**	19,297,425
Dilutive effect of share options [1]	**63,759**	381,889	**72,989**	378,803
Diluted shares outstanding	**19,832,066**	19,710,181	**19,788,368**	19,676,228

[1] The Company did not include 1,102,000 share options for the three months ended June 30, 2012 (June 30, 2011 – 120,000) and 1,086,000 share options for the six months ended June 30, 2012 (June 30, 2011 – 617,000) in the dilutive effect of share options calculation, as these share options were anti-dilutive.

For the six months ended June 30, 2012, the Company declared and paid dividends of $30,752,000 ($1.56 per share) (June 30, 2011 - $28,562,000 ($1.48 per share)).

The Company provides an equity settled option plan for its directors, officers, employees and consultants. Under the plan, the Company may grant options for up to 1,979,704 (December 31, 2011 – 1,957,131) 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 June 30, 2012 and changes during the six month period ended is presented below:

	Number of options	**Weighted average exercise price**
Balance, beginning of year	1,468,225	$ 46.63
Options granted	208,000	46.88
Options exercised	(225,725)	20.50
Options forfeited or cancelled	(131,000)	54.12
At June 30, 2012	1,319,500	$ 50.40

The following table summarizes information about options outstanding at June 30, 2012:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number outstanding at June 30, 2012	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at June 30, 2012	Weighted-average exercise price
$ 20.50	112,500	0.4 years	$ 20.50	112,500	$ 20.50
40.00 – 49.00	121,000	3.2 years	42.58	3,000	48.60
50.00 – 59.00	1,086,000	2.7 years	54.36	43,000	58.18
$ 20.50 – $ 59.00	1,319,500	2.5 years	$ 50.40	158,500	$ 31.25

The Company records compensation expense over the vesting period, which ranges between one to three years, based on the fair value of options granted to employees, directors and consultants. In 2012, the

Company granted 208,000 stock options with an estimated fair value of $1,144,000 or $5.50 per option using the Black-Scholes option pricing model with the following key assumptions:

	June 30, 2012
Weighted-average risk free interest rate (%)(1)	**1.12**
Expected life (years)	**2.00**
Weighted-average volatility (%) (2)	**32.81**
Forfeiture rate (%)	**0.00**
Weighted-average dividend yield (%)	**6.74**

(1) Risk-free interest rate is based on the weighted average Government of Canada benchmark bond yields for two, three and five year terms to match corresponding vesting periods.
(2) The expected volatility is measured as the standard deviation of expected share price returns based on statistical analysis of historical weekly share prices for a representative period.

Weighted average share price at the date of exercise was $51.62 (December 31, 2011 - $53.38).

11. OIL AND GAS SALES, NET OF ROYALTIES

	Three Months		Six Months	
($ 000s)	**June 30, 2012**	June 30, 2011	**June 30, 2012**	June 30, 2011
Oil and gas sales	**31,049**	44,754	**67,942**	82,924
Less:				
Crown royalties	**(2,203)**	(3,542)	**(5,349)**	(5,895)
Freehold, gross overriding and other royalties	**(846)**	(1,248)	**(2,296)**	(2,259)
Oil and gas sales, net of royalties	**28,000**	39,964	**60,297**	74,770

12. OTHER INCOME

	Three Months		Six Months	
($ 000s)	**June 30, 2012**	June 30, 2011	**June 30, 2012**	June 30, 2011
Investment income	**66**	13	**72**	14
Administrative income	**83**	83	**165**	165
Gain on sale of property	**2,500**	-	**3,609**	4
Gain on sale of investments	**-**	-	**445**	1,854
Other income	**2,649**	96	**4,291**	2,037

13. SUBSEQUENT EVENT – DIVIDENDS

Subsequent to June 30, 2012, the Company has declared the following dividends:

Date declared	Record date	$ per share	Date payable
July 4, 2012	July 16, 2012	0.26	July 31, 2012
August 2, 2012	August 15, 2012	0.26	August 31, 2012

Board of Directors

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

Officers and Senior Management

G.F. Fink – Chairman of the Board and Chief Executive Officer
R.D. Thompson – Chief Financial Officer and Secretary
B.A. Curtis – Vice President, Business Development
A. Neumann – Vice President, Engineering and Operations

Registrar & Transfer Agent

Olympia Trust Company, Calgary, Alberta

Auditors

Deloitte & Touche LLP, Calgary, Alberta

Solicitors

Borden Ladner Gervais LLP, Calgary, Alberta

Bankers

CIBC, Calgary, Alberta
Alberta Treasury Branch, Calgary, Alberta

Stock Listing

The Toronto Stock Exchange
Trading Symbol: BNE

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