Q3 For the Nine Months ended September 30, 2012

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BONTERRA ENERGY REPORTS THIRD QUARTER 2012 FINANCIAL AND OPERATING RESULTS

HIGHLIGHTS

As at and for the periods ended		Three months ended		Nine months ended	
($ 000s except $ per share)		**September 30, 2012**	September 30, 2011	**September 30, 2012**	September 30, 2011
FINANCIAL					
Revenue – oil and gas sales		**35,204**	36,535	**103,146**	119,459
Funds flow [1]		**21,705**	20,815	**60,633**	75,987
Per share – basic		**1.10**	1.08	**3.07**	3.93
Per share – diluted		**1.09**	1.06	**3.06**	3.86
Payout ratio		**71%**	72%	**76%**	58%
Cash flow from operations		**16,440**	21,730	**52,865**	71,229
Per share – basic		**0.83**	1.12	**2.68**	3.69
Per share – diluted		**0.83**	1.10	**2.67**	3.62
Payout ratio		**94%**	69%	**87%**	62%
Cash dividends per share [2]		**0.78**	0.78	**2.34**	2.28
Net earnings		**7,746**	9,384	**27,129**	37,541
Per share – basic		**0.39**	0.49	**1.37**	1.94
Per share – diluted		**0.39**	0.48	**1.37**	1.91
Cash netback [3]		**32.41**	37.35	**32.93**	42.52
Capital expenditures and acquisitions, net of dispositions		**27,360**	15,941	**74,061** [4]	42,157
Total assets				**412,812**	354,549
Working capital deficiency				**49,808**	43,362
Long-term debt				**128,779**	72,391
Shareholders' equity				**169,839**	185,908
OPERATIONS					
Oil	– barrels per day	**4,108**	3,789	**3,912**	4,069
	– average price ($ per barrel)	**80.54**	88.21	**83.34**	91.58
NGLs	– barrels per day	**461**	340	**436**	350
	– average price ($ per barrel)	**46.40**	63.80	**53.00**	61.56
Natural gas	– MCF per day	**12,583**	10,553	**12,200**	10,698
	– average price ($ per MCF)	**2.41**	3.91	**2.24**	4.06
Total BOE per day [5]		**6,666**	5,887	**6,381**	6,201

[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 announce its financial and operational results for the three months and nine months ended September 30, 2012.

Operations

Bonterra's operational performance during the third quarter led to improved production levels, however, the Company continued to be hampered by low commodity prices with an average realized price during the period of $80.54 per barrel for oil, $46.40 per barrel for liquids and $2.41 per MCF for natural gas (average realized prices for the first nine months of 2012 averaged $83.34 per barrel for oil, $53.00 per barrel for liquids and $2.24 per MCF for natural gas). The Company's average daily production was 6,666 barrels of oil equivalent (BOE) per day for the third quarter of 2012, an increase of 13.2 percent compared to the third quarter of 2011 and an increase of 10.4 percent quarter over quarter. Production for the first nine months of 2012 was 6,381 BOE per day, an increase of 2.9 percent over the same period in 2011. The October 31, 2012 exit production rate exceeded 8,000 BOE per day.

The first nine months of 2012 were challenging for Bonterra and generally for the Canadian energy sector as well. The operating environment was hindered by a number of significant issues including an extended spring break-up, tie-in delays and weak commodity prices, including volatile price differentials between WTI and Bonterra's average realized prices. The company was also impacted by pipeline shipping constraints, third party downtime and above average production shut-ins of approximately 430 BOE per day of production during the first nine months of 2012.

During the latter part of the third quarter, the Company mitigated some of the tie-in and production issues and will continue with its field optimization program to redirect its increased natural gas production to help alleviate existing and future pressure pipeline constraints from increased drilling activity in the Pembina field. Most of these issues have now been resolved and the Company is on target to reach its production guidance of 6,700 to 7,000 BOE per day.

During the first nine months of 2012, the Company spent approximately $57.0 million on its capital development, drilling and facilities programs. During this period, the company placed two gross (two net) wells on production which were drilled in 2011 and drilled 18 gross (15.4 net) operated Pembina and Willesden Green Cardium horizontal wells of which only three wells were placed on production in the first half of the year. The majority of the remaining wells were placed on production in the third quarter of 2012 (produced for approximately 50 percent of the period) with just two (1.7 net) wells that were drilled prior to September 30, 2012 remaining to be placed on production in the fourth quarter of this year. In addition, four gross (1.3 net) non-operated wells were drilled and all but one (0.5 net) was placed on production during the first nine months of the year. For the remainder of 2012, the Company will continue with its infill drilling program in the main Pembina pool and expects to drill an additional 12 gross (6.24 net) wells and expects that nine gross (3.24 net) of these wells will start producing prior to year end.

The company also spent approximately $17.1 million on a tuck-in acquisition in the Willesden Green Cardium zone which closed on June 7, 2012. The acquisition added 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.

Bonterra remains highly optimistic with regard to its large inventory of lower-risk, oil opportunities in the Pembina Cardium zone and anticipates that production levels will again demonstrate significant growth in 2013. The Board of Directors and management are currently assessing the 2013 budget and capital development plans and expect to release details during the fourth quarter of 2012.

Financial

Oil and natural gas prices exhibited continued weakness in the third quarter of 2012. The Company's average realized price for crude oil during the first nine months of 2012 was $83.34 per barrel, a decrease of approximately nine percent when compared to the same period in 2011. 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 imbalance. The large price differentials have fluctuated substantially and ranged between $5.00 and $25.00 per barrel with an average differential of $12.90 per barrel for the first nine months of 2012 (compared to approximately $4.00 per barrel for the first nine months of 2011).

In addition, the average price of natural gas liquids (NGLs) usually tracks the price of oil. However, in the latter part of the second quarter and into the third 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. Natural gas prices continued to remain extremely weak and decreased 44.8 percent to $2.24 per MCF for the first nine months of the year when compared to the same period in 2011.

Mainly as a result of this lower price environment, revenue and cash flow from operations decreased 13.7 percent and 20.2 percent, respectively, on the nine month basis year over year. However, in light of the improved operations and substantial production volumes being added in the second half of the year, Bonterra's Board of Directors and management elected to maintain the monthly dividend level to shareholders at $0.26 per share including the recently announced October dividend payable on November 30, 2012. Dividends to shareholders during the first nine months of 2012 totaled $2.34 per share, a 2.6 percent increase over the 2011 level. This represents a payout ratio of 76 percent of funds flow which currently exceeds the Company's guidance of 50 to 65 percent. Higher production volumes will, subject to commodity prices, assist in reducing this ratio in the fourth quarter of 2012.

Bonterra intends to continue focusing on managing its funds flow, capital expenditure ranges and dividend payments. At December 31, 2012, the Company expects it will be in excess of its annual guidance of 1.5 to 1 times net debt to funds flow ratio. The Company expects that this ratio will be higher due to lower than budgeted commodity prices and the Willesden Green Asset acquisition of $17.1 million. The Company will closely monitor this ratio in the future.

Outlook

Bonterra remains pleased with its continued controlled growth in production and reserves on a BOE basis and its sustainability. The Company will continue to pursue the aggressive development of its opportunities and is focused on improving production rates, sustaining a consistent pace of development and increasing project economics in the future.

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 remains a strategic approach for the Company.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following report dated November 13, 2012 is a review of the operations and current financial position for the nine months ended September 30, 2012 for Bonterra Energy Corp. (Bonterra or the Company) and should be read in conjunction with the unaudited interim condensed financial statements and the notes related thereto for the periods ended September 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", "cash netback" and "net debt" to analyze operating performance, which are not standardized measures recognized under IFRS and do not have a standardized meaning prescribed by IFRS. These measures are commonly used in the oil and gas industry and are considered informative by management, shareholders and analysts. These measures may differ from those made by other companies and accordingly may not be comparable to such measures as reported by other companies.

The Company calculates payout ratio 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)	**Q3**	Q2	Q1	Q4	Q3	Q2	Q1
Revenue – oil and gas sales	**35,204**	31,049	36,893	42,818	36,535	44,754	38,170
Cash flow from operations	**16,440**	14,727	21,698	26,180	21,730	25,465	24,034
Per share – basic	**0.83**	0.74	1.10	1.35	1.12	1.32	1.25
Per share – diluted	**0.83**	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	0.78	0.72
Payout Ratio	**94%**	105%	71%	58%	69%	59%	58%
Net earnings	**7,746**	9,201	10,182	6,067	9,384	14,533	13,624
Per share – basic	**0.39**	0.47	0.52	0.31	0.49	0.75	0.71
Per share – diluted	**0.39**	0.46	0.51	0.31	0.48	0.74	0.69
Capital expenditures and acquisitions, net of disposals	**27,360**	25,288 [2]	21,413	20,529	15,941	5,872	20,344
Total assets	**412,812**	393,772	371,757	364,176	354,549	348,097	357,000
Working capital deficiency	**49,808**	42,082	57,889	51,576	43,362	30,823	39,777
Long-term debt	**128,779**	114,747	75,543	69,916	72,391	72,608	70,568
Shareholders' equity	**169,839**	176,292	181,008	181,640	185,908	192,297	192,054
Operations							
Oil (barrels per day)	**4,108**	3,650	3,975	4,096	3,789	4,164	4,258
NGLs (barrels per day)	**461**	428	419	493	340	372	338
Natural gas (MCF per day)	**12,583**	11,753	12,260	12,541	10,553	11,024	10,517
Total BOE per day [3]	**6,666**	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			Nine months ended	
	September 30, 2012	June 30, 2012	September 30, 2011	**September 30, 2012**	September 30, 2011
Crude oil (barrels per day)	**4,108**	3,650	3,789	**3,912**	4,069
NGLs (barrels per day)	**461**	428	340	**436**	350
Natural gas (MCF per day)	**12,583**	11,753	10,553	**12,200**	10,698
Average BOE per day	**6,666**	6,037	5,887	**6,381**	6,201

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.

During the first nine months of 2012 production volumes increased to 6,381 BOE per day compared to 6,201 BOE per day for the same period one year ago. The increase in production is due to the continued success of the Cardium horizontal oil drilling program in the Pembina and Willesden Green fields. The increase in production was negatively impacted by pipeline constraints, facility turn arounds, forest fires and high levels of precipitation which significantly delayed drilling and completion of wells and in having to shut-in production during the first nine months of 2012. The Company has estimated that approximately 430 BOE per day of production during the first nine months of 2012 was either shut-in, choked back or the Company was unable to tie-in natural gas production due to pipeline constraints. In addition, seven out of the thirteen wells placed on production in the third quarter, occurred in late August or September.

Production volumes for Q3 2012 increased by ten percent to 6,666 BOE per day compared to Q2 2012. Thirteen (10.7 net) horizontal wells were placed on production at various times in the third quarter versus only one (one net) well during the second quarter of 2012. The delays in bringing on production in Q2 2012 was primarily due to spring breakup and high levels of precipitation limiting road access to well sites for drilling and service rigs and oil trucks due to road bans. In Q3 2012, the Company was able resume its drilling program and bring the delayed wells on production. The Company's exit production rate for October was in excess of 8,000 BOE per day.

Production in Q3 2012 was negatively impacted by shut-in production of approximately 100 BOE per day in the Willesden Green area for compressor overhauls by the operators of major gas plants. In the Pembina field the Company experienced shut-in production from pipeline and compressor failures of approximately 275 BOE per day for the entire third quarter. In addition, it is estimated that the Company was unable to tie-in approximately 270 BOE per day of additional natural gas production into a third party's pipeline during the third quarter of 2012.

The Company has eliminated most of the natural gas tie-in and production issues towards the end of the third quarter and will continue with its field optimization program to redirect its increased production to treaters and gas plants that have remaining processing capacity to help alleviate existing and future pressure pipeline constraints from increased drilling activity in the Pembina field. For the remainder of 2012, the Company will continue with its infill drilling program in the main Pembina pool.

During the first nine months of 2012 the Company placed two gross (two net) wells on production that were drilled in 2011, drilled eighteen gross (15.4 net) wells in the first nine months of 2012, of which sixteen gross (13.7 net) were placed on production. The remaining two (1.7 net) wells will be placed on production in the fourth quarter. In addition during the first nine months of 2012, four gross (1.3 net) non-operated wells were drilled and all but one (0.5 net) were placed on production.

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. The purchase added 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 considered underdeveloped as horizontal well development in this area is in its early stages.

Oil and Gas Sales, Net of Royalties

	Three months ended			Nine months ended	
($ 000s)	**September 30, 2012**	June 30, 2012	September 30, 2011	**September 30, 2012**	September 30, 2011
Revenue – oil and gas sales	**35,204**	31,049	36,535	**103,146**	119,459
Less:					
Crown royalties	**(1,942)**	(2,203)	(3,428)	**(7,291)**	(9,323)
Freehold, gross overriding and other royalties	**(720)**	(846)	(1,725)	**(3,016)**	(3,984)
Total royalties	**(2,662)**	(3,049)	(5,153)	**(10,307)**	(13,307)
Oil and gas sales, net of royalties	**32,542**	28,000	31,382	**92,839**	106,152
Average Realized Prices ($):					
Crude oil (per barrel)	**80.54**	80.93	88.21	**83.34**	91.58
NGLs (per barrel)	**46.40**	53.02	63.80	**53.00**	61.56
Natural gas (per MCF)	**2.41**	1.96	3.91	**2.24**	4.06
Average (per BOE)	**57.40**	52.52	67.46	**58.99**	70.56
Crown royalties - percentage of revenue	**5.5**	7.1	9.4	**7.1**	7.8
Freehold, gross overriding and other royalties - percentage of revenue	**2.1**	2.7	4.7	**2.9**	3.3
Royalties – percentage of revenue	**7.6**	9.8	14.1	**10.0**	11.1
Royalties $ per BOE	**4.34**	5.55	9.51	**5.89**	7.86

Revenue from oil and gas sales decreased by $16,313,000 or fourteen percent in the first nine months of 2012 compared to the corresponding period in 2011, due to a sixteen percent decrease in the average realized price per BOE partially offset by increased natural gas production of 14 percent.

The quarter over quarter increase in oil and gas revenues of thirteen percent or $4,155,000, was in part due to a ten percent increase in production and a twenty three percent increase in natural gas prices.

Although the natural gas pricing environment has been steadily weakening since early 2011, some recoveries are occurring with AECO prices increasing 22 percent in the third quarter of 2012 compared to the previous quarter. Bonterra's realized natural gas price is normally higher than AECO pricing due to higher heating content per mcf.

Under normal circumstances, the average price of NGLs tracks the price of oil. However, in the latter part of the second quarter and into the third 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.

The Company's product split on a revenue basis for the first nine 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 low.

Royalties paid by the Company consist primarily of Crown royalties paid to the Provinces of Alberta, Saskatchewan and British Columbia. Approximately 50 percent of the Company's production is from low productivity wells and therefore reduced Crown royalty rates. The Company's average Crown royalty rate is approximately 7.1 percent for the nine months ended September 30, 2012 compared to 7.8 percent for the comparable period one year ago. The percent decrease is primarily due to lower crown rates due to lower commodity prices for crude oil and natural gas, partially offset by additional 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.

Crown royalties decreased for Q3 2012 compared to Q2 2012 primarily due to the difference between Bonterra's realized price for crude oil versus a lower predetermined Alberta crown reference price for crude oil, which determines Alberta royalty rates and minimum crown oil royalty thresholds. In addition, Bonterra tied in 13 wells in Q3 2012, of which all but one were crown wells and therefore eligible for the initial five percent royalty rate.

Non-crown royalties decreased for the nine months of 2012 compared to the first nine months of 2011 primarily due less oil and gas revenue from wells subject to non-crown royalties. The percent decrease in non-crown royalties quarter over quarter is primarily due to decreased production from wells subject to freehold royalties.

Bonterra's financial results are significantly influenced by fluctuations in commodity prices, including price differentials. The following table depicts selective market benchmark prices and foreign exchange rates in the last nine quarters to assist in understanding volatility in prices and foreign exchange rates that have impacted Bonterra's oil and gas revenues.

	Q3 -2012	Q2 -2012	Q1-2012	Q4-2011	Q3-2011	Q2-2011	Q1-2011
Crude oil							
WTI (U.S.$/bbl)	**92.22**	93.49	102.93	94.06	89.76	102.56	94.10
Bonterra average realized price (Cdn$/bbl)	**80.54**	80.93	88.48	96.25	88.21	101.30	85.02
Natural gas							
AECO (Cdn$/mcf)	**2.31**	1.89	2.15	3.19	3.65	3.86	3.79
Bonterra average realized price (Cdn$/mcf)	**2.41**	1.96	2.32	3.34	3.91	4.15	4.12
Foreign exchange							
Cdn$/U.S.$	**0.9948**	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. The price differential averaged between $12.00 to $14.00 per barrel for the first nine months of 2012. In September, the average price differential tightened to an average of $7.00 per barrel due to a combination of increased rail shipments, decreased Alberta synthetic crude supply along with increased demand with the completion of numerous Canadian and U.S. refinery maintenance activities. Bonterra attempts to manage its fluctuating crude oil pricing differentials and pipeline apportionments by controlling crude oil inventory levels and minimizing production interruption costs due to restarting shut-in wells.

Other Income

($ 000s)	Three months ended **September 30, 2012**	June 30, 2012	September 30, 2011	Nine months ended **September 30, 2012**	September 30, 2011
Gain on sale of property	**7**	2,500	158	**3,616**	162
Gain on sale of investments	**1,317**	-	272	**1,762**	2,126
Investment income	**50**	66	8	**122**	22
Administrative income	**83**	83	83	**248**	248
	1,457	2,649	521	**5,748**	2,558

During Q2 2012, the Company disposed of a portion of its Central Alberta Tomahawk property for cash proceeds 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 working interest in the Tomahawk property. One new well has been drilled and placed on production in the third quarter and three more wells will be drilled and placed on production in the fourth quarter of 2012. Bonterra has negotiated favourable rates with the purchaser to use the infrastructure for its share of production from these wells.

During the first nine months of 2012, the Company disposed of a portion of its investments for gross proceeds of $3,058,000 (September 30, 2011 - $3,991,000). The market value of the investments held by the Company is in excess of $4,800,000 at September 30, 2012 (December 31, 2011 - $6,800,000). The decrease in carrying value is mainly due to the sale of investments in 2012 partially offset by increased market value in the remaining investments.

Production Costs

($ 000s except $ per BOE)	Three months ended **September 30, 2012**	June 30, 2012	September 30, 2011	Nine months ended **September 30, 2012**	September 30, 2011
Production costs	**10,178**	8,767	9,159	**28,001**	26,963
$ per BOE	**16.59**	15.96	16.91	**16.01**	15.93

Total production costs for the first nine months of 2012 increased four percent from the same period one year ago. On a per BOE basis, production costs have remained relatively unchanged.

Following spring break up and the high levels of precipitation experienced in Q2 2012, the Company and third parties of various non-operated facilities completed facility turnarounds leading to increased operating costs in the third quarter. The Company incurred gas gathering and processing equalizations charges for prior periods and additional costs relating to pipeline breaks amounting to $800,000. These costs were partially offset by lower costs resulting from tie-ins to alternative lower cost facilities.

There was a sixteen percent increase in production costs during the third quarter of 2012 when compared to the second quarter of 2012; much of it attributable to a ten percent increase in production. On a per BOE basis, the Company had a four percent increase mainly due to additional facility start up costs, pipeline repairs, equalizations and facility turnarounds. Also in the third quarter, the Company was unable to tie-in a portion of its natural gas production due to pipeline constraints, which lowered production and increased costs on a BOE basis.

Approximately 55 percent 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. The Company anticipated lower production costs on a BOE basis through increased production from the horizontal drilling program, improved tie-in techniques and upgraded facilities.

General and Administration (G&A) Expense

	Three months ended			Nine months ended	
($ 000s except $ per BOE)	**September 30, 2012**	June 30, 2012	September 30, 2011	**September 30, 2011**	September 30, 2011
Employee compensation expense	**935**	1,102	1,027	**3,099**	3,560
Office and administration expense	**600**	455	252	**1,366**	1,273
	1,535	1,557	1,279	**4,465**	4,833
$ per BOE	**2.50**	2.83	2.36	**2.55**	2.85

Total G&A expense decreased eight percent to $4,465,000 for the nine months ended September 30, 2012 from $4,833,000 in the same period in 2011.

The decrease in employee compensation expense of $461,000 for the first nine months of 2012 compared to the same period one year ago was primarily due to a decrease in accrued bonuses, due to 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 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 decreased due to temporary staffing requirements in the second quarter of 2012.

The increase in office and administration expense for the nine months ended September 30, 2012 related primarily to an increase in consulting fees and computer services. This was partially offset by decreased engineering fees and regulatory filing fees compared to the same period in 2011.

Quarter over quarter office and administration expense increased by $145,000 which was related to increases in accounting and legal fees. This was partially offset by less regulatory filing fees and bank fees relating to the increase of the bank facility incurred in the second quarter of 2012.

Finance Costs

($ 000s except $ per BOE)	Three months ended **September 30, 2012**	June 30, 2012	September 30, 2011	Nine months ended **September 30, 2012**	September 30, 2011
Interest on long-term debt	**779**	757	502	**2,114**	**1,725**
Other interest	**305**	447	305	**1,054**	**905**
Interest expense	**1,084**	1,204	807	**3,168**	**2,630**
$ per BOE	**1.77**	2.19	1.49	**1.81**	**1.55**
Unwinding of the discounted value of decommissioning liabilities	**227**	217	205	**662**	**615**
Total finance costs	**1,311**	1,421	1,012	**3,830**	**3,245**

Interest on long-term debt increased 23 percent in the first nine months of 2012 compared to the first nine 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 experienced decreased cash flows as a result of lower commodity pricing from one year ago while maintaining its capital drilling program and monthly dividend rate.

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 September 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 facilities at September 30, 2012 were $128,779,000 (December 31, 2011 - $69,916,000). Amounts borrowed under the credit facilities at September 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 September 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 available cash flow for the preceding four fiscal quarters.

Available cash flow is defined to be cash provided by operating activities excluding gains on sale of property and investments, the change in non-cash working capital and decommissioning liabilities settled and including investment income included in cash used in investing activities. At September 30, 2012, the Company is in compliance with all covenants.

Effective October 5, 2012, the Company amended its bank facility with the same terms and conditions with the exception of increasing its syndicated revolving credit facility from $120,000,000 to $160,000,000, providing the Company with a total syndicated and non-syndicated credit facility of $180,000,000, and to increase the floating demand debentures from $200,000,000 to $300,000,000.

Share-Based Payments

	Three months ended			Nine months ended	
($ 000s)	**September 30, 2012**	June 30, 2012	September 30, 2011	**September 30, 2012**	September 30, 2011
	1,040	865	815	**2,977**	1,732

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 $998,000 will be recorded for the balance of 2012, $2,079,000 for 2013, $321,000 for 2014 and $68,000 for 2015.

During the first nine months of 2012, the Company issued 310,000 stock options to employees, directors and consultants with an estimated fair value of $1,591,000 ($5.13 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 31.8 percent, an expected weighted average life of 2.0 years and a weighted average dividend yield of 6.9 percent. Also, of the 155,000 options that were cancelled in the first nine months of the year, 137,000 were forfeited causing $431,000 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			Nine months ended	
($ 000s)	**September 30, 2012**	June 30, 2012	September 30, 2011	**September 30, 2012**	September 30, 2011
	8,010	7,298	6,209	**22,936**	19,232

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 by approximately nineteen percent for the nine months ended September 30, 2012 over September 30, 2011. The increase in depletion was the result of increased production volumes in 2012 and 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 that resulted in higher costs on a BOE basis.

Depletion and depreciation increased by ten percent in the third quarter of 2012 over the second quarter of 2012. This was primarily attributable to increased production of ten percent.

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	38,342
Eligible capital expenditures	7	6,035
Canadian oil and gas property expenditures	10	25,817
Canadian development expenditures	30	115,940
Canadian exploration expenditures	100	11,174
Income tax losses carried forward [(1)]	100	219,357
		416,665

[(1)] Federal income tax losses carried forward expire in the following years; 2025 - $7,118,000, 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 $135,659,000 (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			Nine months ended	
($ 000s except $ per share)	**September 30, 2012**	June 30, 2012	September 30, 2011	**September 30, 2012**	September 30, 2011
Net earnings	**7,746**	9,201	9,384	**27,129**	37,541
$ per share – basic	**0.39**	0.47	0.49	**1.37**	1.94
$ per share – diluted	**0.39**	0.46	0.48	**1.37**	1.91

Net earnings decreased in the first nine months of 2012 by $10,412,000 or 28 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 production costs, depletion and depreciation and share-based payments expense. This decrease was partially offset by an increase in natural gas production, by a gain on sale of assets and by a decrease in deferred tax expense and overall lower G&A expenditures and crown royalties.

The decrease in net earnings for Q3 2012 compared to Q2 2012 is the result of increased production costs, depletion and depreciation expense and deferred tax expense in Q3 2012 and a larger gain on sale of a portion of its Tomahawk oil and gas property in the second quarter versus a smaller gain on sale of a portion of the Company's investment in marketable securities in the third quarter. The decrease in net earnings was partially offset by increased oil and gas revenue.

Other Comprehensive Income

Other comprehensive income for the nine months of 2012 consists of an unrealized gain before tax on investments (including investments in a related party) of $894,000 relating to an increase in the investments' fair value (September 30, 2011 – unrealized loss of $857,000 relating to a decrease in the investments' fair value). The Company also disposed of a portion of these investments in the first nine months of 2012 for a realized gain before tax of $1,762,000 (September 30, 2011 - $2,126,000). 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

($ 000s except $ per share)	Three months ended **September 30, 2012**	 June 30, 2012	 September 30, 2011	Nine months ended **September 30, 2012**	 September 30, 2011
Cash flow from operations	**16,440**	14,727	21,730	**52,865**	71,229
$ per share – basic	**0.83**	0.74	1.12	**2.68**	3.69
$ per share – diluted	**0.83**	0.74	1.10	**2.67**	3.62

In the first nine months of 2012, cash flow from operations decreased by $18,364,000 or 26 percent compared to the first nine months of 2011. This was primarily due to decreased crude oil production and lower overall oil and gas prices and an increase in production costs, partially offset by lower crown royalties and G&A expenditures. The quarter over quarter increase of $1,713,000, or 12 percent, was due primarily to increased crude oil production and gas prices and a decrease in non-cash working capital, partially offset by higher production costs.

Cash Netback

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

$ per BOE	Three months ended **September 30, 2012**	 June 30, 2012	 September 30, 2011	Nine months ended **September 30, 2012**	 September 30, 2011
Production volumes (BOE)	**613,296**	549,348	541,595	**1,748,473**	1,692,983
Gross production revenue	**$ 57.40**	$ 52.52	$ 67.46	**$ 58.99**	$ 70.56
Royalties	**(4.34)**	(5.55)	(9.51)	**(5.89)**	(7.86)
Field operating costs	**(16.59)**	(15.96)	(16.91)	**(16.01)**	(15.93)
Field netback	**36.47**	35.01	41.04	**37.09**	46.77
General and administrative	**(2.50)**	(2.83)	(2.36)	**(2.55)**	(2.85)
Interest and other	**(1.56)**	(1.94)	(1.33)	**(1.61)**	(1.40)
Cash netback	**$ 32.41**	$ 30.24	$ 37.35	**32.93**	$ 42.52

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 September 30, 2012 of $628,000 (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 $203,000 (September 30, 2011 - $203,000). 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 September 30, 2012, Geomark owed the Company $26,000 (December 31, 2011 - $74,000).

As at September 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 nine months of 2012 was $357,000 (September 30, 2011 - $355,000). 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. Subsequent to September 30, 2012, Geomark demanded payment under the loan agreement dated September 2, 2010. The loan was fully paid on November 9, 2012.

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 $45,000 (September 30, 2011 - $45,000). Services provided by the Company include executive services, accounting services, oil and gas administration and office administration. All services performed are charged at estimated fair value. The Company has no share ownership in Pine Cliff. As at September 30, 2012, the Company had an account receivable from Pine Cliff of $2,000 (December 31, 2011 – $4,000).

As at September 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 nine months of 2012 was $214,000 (September 30, 2011 - $213,000). This loan results in a substantial benefit to Bonterra as the interest paid to the CEO by Bonterra is lower than bank interest.

On October 19, 2012, Pine Cliff, a company with some common directors and some common management with Bonterra, acquired 100 percent of the issued and outstanding common shares of Geomark, pursuant to an arrangement agreement. Geomark became a wholly-owned subsidiary of Pine Cliff and its shares were delisted from the TSX Venture Exchange on October 22, 2012. Consideration for each Geomark Share was 1.5 voting common shares of Pine Cliff. Bonterra now holds 1,034,523 common shares which represents 1.6 percent ownership in the outstanding common shares of Pine Cliff. With the arrangement, the management agreement between Bonterra and Geomark was terminated effective October 19, 2012. The common shares of Pine Cliff trade on the TSX Venture Exchange under the symbol PNE.

Liquidity and Capital Resources

Working Capital Deficiency

The following table highlights Bonterra's net debt and equity levels as at:

($ 000s)	September 30, 2012	December 31, 2011
Working capital deficiency	49,808	51,576
Long-term bank debt	128,779	69,916
Net debt	178,587	121,492
Shareholders' equity	169,839	181,640
Total	348,426	303,132

Working capital deficiency is calculated as current liabilities less current assets. The Company finances its working capital deficiency using cash flow from operations, its long-term bank debt, share issuances, option exercises and sale of investments. The increase in net debt from $121,492,000 at December 31, 2011 to $178,587,000 at September 30, 2012 is attributable primarily to the substantial decrease in commodity prices and thus lower field net backs and cash flow from operations, along with significant capital spending undertaken in the first nine months of 2012, while maintaining the dividends paid to Shareholders. Bonterra's exploration and development activities are conducted primarily during colder weather, as ground conditions provide improved access to leases and more efficient execution of its capital expenditure activities. Significant expenditures are generally made during these periods with the cash flow benefit realized in future periods. For the nine months of 2012, fewer wells were drilled and tied-in in the first quarter of this year compared to last year along with more shut-in production in the second and third quarter of 2012 compared to 2011 contributing to the Company's decreased cash flows in 2012.

Bonterra's dividends to its Shareholders are funded by cash flow from operating activities with the remaining cash flow directed towards capital spending and, where applicable, the repayment of debt. To the extent that the excess cash flow from operations after dividends is not sufficient to cover capital spending, the shortfall is funded by funds from the exercising of employee stock options, the sale of investments and by draw downs from Bonterra's credit facilities. Bonterra intends to provide dividends to Shareholders that are sustainable to the Company considering its liquidity and its long-term operational strategy. In addition, since the level of dividends is highly dependent upon cash flow generated from operations, which fluctuates significantly in relation to changes in financial and operational performance, commodity prices, interest and exchange rates and many other factors, future dividends cannot be assured. Bonterra's payout ratio based on cash flow was 87 percent for the nine months ended September 30, 2012 (62 percent for the nine months ended September 30, 2011).

Bonterra intends to continue focusing on managing its cash flow, capital expenditure ranges and dividend payments. At December 31, 2012, the Company expects it will be in excess of its annual guidance of 1.5 to 1 times net debt to cash flow ratio. The Company expects that this ratio will be higher due to lower than budgeted commodity prices and the Willesden Green Asset acquisition of $17.1 million. The Company will closely monitor this ratio in the future. The Company believes the Willesden Green Asset acquisition will help to sustain future cash flows and shareholder dividends.

Capital Expenditures

During the first nine months of 2012, the Company incurred capital costs of $56,953,000 (2011 - $42,157,000 net of drilling credits) net of proceeds on disposal of property, plant and equipment. The costs relate primarily to the drilling of eighteen gross (15.4 net) Pembina and Willesden Green Cardium operated horizontal wells and four (1.3 net) non-operated wells, facilities and gathering systems.

In June 2012, the Company purchased Willesden Green Assets for consideration of $17,108,000, which included oil and gas properties and equipment and is not included in the above outlined capital costs of $56,953,000.

The Company currently has plans to spend $65,000,000 (excluding acquisitions) mainly on its 2012 Pembina and Willesden Green 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. For more information related to capital expenditures and the Willesden Green Asset acquisition please refer to the discussion under production.

Long-term Debt

As of September 30, 2012 and December 31, 2011, the Company has a bank facility consisting of a $120,000,000 (effective October 5, 2012 - $160,000,000) syndicated revolving credit facility and a $20,000,000 non-syndicated revolving credit facility. Amounts drawn under these facilities at September 30, 2012 were $128,779,000 (December 31, 2011 - $69,916,000). The interest rates on the outstanding debt as of September 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 Finance Costs.

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	246,725	5,058
Transfer of contributed surplus to share capital		319
Balance, September 30, 2012	19,818,041	147,944

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 1,981,804 (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 September 30, 2012 and December 31, 2011, and changes during the nine month and twelve month periods ended on those dates is presented below:

	September 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	**310,000**	**45.92**	1,142,000	54.54
Options exercised	**(246,725)**	**20.50**	(351,775)	20.32
Options forfeited or cancelled	**(155,000)**	**54.11**	(69,000)	29.39
Outstanding at end of period	**1,376,500**	**$ 50.31**	1,468,225	$ 46.63
Options exercisable at end of period	**137,500**	**$ 31.90**	333,225	$ 20.75

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

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number outstanding at September 30, 2012	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at September 30, 2012	Weighted-average exercise price
$ 20.50	91,500	0.2 years	$ 20.50	91,500	$ 20.50
40.00 – 49.00	223,000	3.0 years	43.21	3,000	48.60
50.00 – 59.00	1,062,000	2.6 years	54.37	43,000	58.18
$ 20.50 – $ 59.00	1,376,500	2.5 years	$ 50.31	137,500	$ 31.90

On October 30, 2012, the Company granted 632,000 stock options to employees, directors and consultants with an exercise price of $45.11, based on the market price immediately preceding the date of grant. The options vest between one to three years and expire between April 30, 2014 to April 30, 2016.

Dividend Policy

For the nine months ended September 30, 2012, Bonterra paid dividends of $46,205,000 ($2.34 per share) compared to $43,649,000 ($2.26 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 period 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	September 30, 2012	December 31, 2011
Assets			
Current			
Accounts receivable		**17,671**	17,094
Crude oil inventory		**553**	1,092
Prepaid expenses		**2,359**	1,688
Investments		**4,225**	6,266
		24,808	26,140
Investment in related party	3	**628**	566
Exploration and evaluation assets		**1,982**	1,989
Property, plant and equipment	5	**333,414**	274,361
Investment tax credit receivable	6	**27,670**	27,670
Deferred tax asset	6	**24,310**	33,450
		412,812	364,176
Liabilities			
Current			
Accounts payable and accrued liabilities		**27,616**	30,716
Due to related parties	7	**32,000**	32,000
Subordinated promissory note	8	**15,000**	15,000
		74,616	77,716
Bank debt	9	**128,779**	69,916
Decommissioning liabilities		**39,578**	34,904
		242,973	182,536
Shareholders' equity			
Share capital	10	**147,944**	142,567
Contributed surplus		**7,960**	5,302
Accumulated other comprehensive income		**1,902**	2,662
Retained earnings		**12,033**	31,109
		169,839	181,640
		412,812	364,176

See accompanying notes to these condensed financial statements.

Condensed Statements of Comprehensive Income

For the periods ended September 30 (unaudited)

($ 000s, except $ per share)	Note	Three Months **2012**	Three Months 2011	Nine Months **2012**	Nine Months 2011
Revenue					
Oil and gas sales, net of royalties	11	**32,542**	31,382	**92,839**	106,152
Other income	12	**1,457**	521	**5,748**	2,558
		33,999	31,903	**98,587**	108,710
Expenses					
Production costs		**10,178**	9,159	**28,001**	26,963
Office and administration		**600**	252	**1,366**	1,273
Employee compensation		**935**	1,027	**3,099**	3,560
Finance costs		**1,311**	1,012	**3,830**	3,245
Share-based payments		**1,040**	815	**2,977**	1,732
Depletion and depreciation		**8,010**	6,209	**22,936**	19,232
		22,074	18,474	**62,209**	56,005
Earnings before income taxes		**11,925**	13,429	**36,378**	52,705
Deferred income taxes		**4,179**	4,045	**9,249**	15,164
Net earnings for the period		**7,746**	9,384	**27,129**	37,541
Other comprehensive loss					
Unrealized gains (losses) on investments		**1,070**	(1,729)	**894**	(857)
Deferred taxes on unrealized losses (gains) on investments		**(134)**	229	**(112)**	163
Realized gains on investments transferred to net earnings		**(1,317)**	(272)	**(1,762)**	(2,126)
Deferred taxes on realized gains on investments transferred to net earnings		**164**	36	**220**	282
Other comprehensive loss for the period		**(217)**	(1,736)	**(760)**	(2,538)
Comprehensive income for the period		**7,529**	7,648	**26,369**	35,003
Net earnings per share - basic	10	**0.39**	0.49	**1.37**	1.94
Net earnings per share – diluted	10	**0.39**	0.48	**1.37**	1.91
Comprehensive income per share - basic	10	**0.38**	0.40	**1.34**	1.81
Comprehensive income per share – diluted	10	**0.38**	0.39	**1.33**	1.78

See accompanying notes to these condensed financial statements.

Condensed Statements of Cash Flows

For the periods ended September 30 (unaudited)

		Three Months		Nine Months	
($ 000s)	**Note**	**2012**	2011	**2012**	2011
Operating activities					
Earnings before income taxes		**11,925**	13,429	**36,378**	52,705
Items not affecting cash					
Share-based payments		**1,040**	815	**2,977**	1,732
Depletion and depreciation		**8,010**	6,209	**22,936**	19,232
Unwinding of the discounted value of decommissioning liabilities		**227**	205	**662**	615
Gain on sale of property		**(7)**	(158)	**(3,616)**	(162)
Gain on sale of investments		**(1,317)**	(272)	**(1,762)**	(2,126)
Investment income		**(50)**	(8)	**(122)**	(22)
Interest expense		**1,084**	807	**3,168**	2,630
Change in non-cash working capital					
Accounts receivable		**(3,963)**	753	**1,024**	(908)
Crude oil inventory		**(19)**	(54)	**358**	(33)
Prepaid expenses		**239**	(172)	**(671)**	(791)
Accounts payable and accrued liabilities		**551**	1,187	**(4,946)**	1,667
Decommissioning expenditures		**(196)**	(204)	**(353)**	(680)
Interest paid		**(1,084)**	(807)	**(3,168)**	(2,630)
Cash provided by operating activities		**16,440**	21,730	**52,865**	71,229
Financing activities					
Increase in bank debt		**14,032**	(217)	**58,863**	2,005
Stock option proceeds		**431**	235	**5,058**	2,649
Dividends		**(15,453)**	(15,087)	**(46,205)**	(43,649)
Cash provided by (used in) financing activities		**(990)**	(15,069)	**17,716**	(38,995)
Investing activities					
Investment income received		**50**	8	**122**	22
Exploration and evaluation expenditures		**(35)**	-	**(92)**	(252)
Property, plant and equipment expenditures		**(27,469)**	(16,171)	**(60,614)**	(42,143)
Proceeds on sale of property		**144**	230	**3,753**	238
Purchase of investments		**-**	-	**(185)**	-
Proceeds on sale of investments		**1,827**	587	**3,058**	3,991
Acquisition	**4**	**-**	-	**(17,108)**	-
Change in non-cash working capital					
Accounts payable and accrued liabilities		**11,138**	7,872	**1,846**	3,383
Accounts receivable		**(1,105)**	813	**(1,361)**	2,527
Cash used in investing activities		**(15,450)**	(6,661)	**(70,581)**	(32,234)
Net cash inflow		**-**	-	**-**	-
Cash, beginning of period		**-**	-	**-**	-
Cash, end of period		**-**	-	**-**	-

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENTS 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			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)				(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
Share-based payments			822			822
Exercise of options	221,475	4,501				4,501
Transfer to share capital on exercise of options		238	(238)			-
Comprehensive income (loss)				(502)	6,067	5,565
Dividends					(15,156)	(15,156)
December 31, 2011	19,571,316	142,567	5,302	2,662	31,109	181,640
Share-based payments			2,977			2,977
Exercise of options	246,725	5,058				5,058
Transfer to share capital on exercise of options		319	(319)			-
Comprehensive income (loss)				(760)	27,129	26,369
Dividends					(46,205)	(46,205)
September 30, 2012	19,818,041	147,944	7,960	1,902	12,033	169,839

(1) Contributed surplus comprises of share-based payments

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

See accompanying notes to these condensed financial statements

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

As at September 30, 2012 and December 31, 2011 and for the three and nine months ended September 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 November 13, 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 nine months of 2012, the Company recorded less depletion and depreciation of $6,526,000 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 is recorded at fair market value.

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

On October 19, 2012, Pine Cliff, a company with some common directors and some common management with Bonterra, acquired 100 percent of the issued and outstanding common shares of Geomark, pursuant to an arrangement agreement. Geomark became a wholly-owned subsidiary of Pine Cliff and its shares were delisted from the TSX Venture Exchange on October 22, 2012. Consideration for each Geomark Share was 1.5 voting common shares of Pine Cliff. Bonterra now holds 1,034,523 common shares which represents 1.6 percent ownership in the outstanding common shares of Pine Cliff. The common shares of Pine Cliff trade on the TSX Venture Exchange under the symbol PNE.

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 $1,124,000 and operating expenses of $275,000 for the period from June 7, 2012 to September 30, 2012. If the acquisition had occurred on January 1, 2012, total oil and gas sales, net of royalties, would have been approximately $2,755,000 and total operating expenses would have been approximately $750,000 for the nine months ended September 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	52,580	9,851	73	62,504
Transfers from exploration and evaluation assets	99	-	-	99
Acquisition	16,117	3,486	-	19,603
Disposal	(261)	(126)	(32)	(419)
Balance at September 30, 2012	**412,728**	**90,822**	**1,551**	**505,101**

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	(18,495)	(4,383)	(58)	(22,936)
Disposal and other	181	-	21	202
Balance at September 30, 2012	**(134,835)**	**(35,672)**	**(1,180)**	**(171,687)**
Carrying amounts as at: **($ 000s)**				
December 31, 2011	227,672	46,322	367	274,361
September 30, 2012	**277,893**	**55,150**	**371**	**333,414**

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 nine months ended September 30, 2012 and 2011.

In January 2012, the Company disposed of its Central Alberta Redwater 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 of 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	38,342
Eligible capital expenditures	7	6,035
Canadian oil and gas property expenditures	10	25,817
Canadian development expenditures	30	115,940
Canadian exploration expenditures	100	11,174
Income tax losses carried forward [(1)]	100	219,357
		416,665

[(1)] Federal income tax losses carried forward expire in the following years; 2025 - $7,118,000, 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 $135,659,000 (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 September 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 nine months of 2012 was $214,000 (September 30, 2011 - $213,000).

As at September 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 nine months of 2012 was $357,000 (September 30, 2011 - $355,000). Subsequent to September 30, 2012, Geomark demanded payment under the loan agreement dated September 2, 2010. The loan was fully paid on November 9, 2012.

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 $203,000 for the nine months ended September 30, 2012 (2011 - $203,000) for management services and office administration. This fee has been included in other income. As at September 30, 2012, the Company had an account receivable from Geomark of $26,000 (December 31, 2011 - $74,000). With the arrangement agreement between Pine Cliff and Geomark (see Note 3), the management agreement between Bonterra and Geomark was terminated effective October 19, 2012.

The Company received a management fee of $45,000 for the nine months ended September 30, 2012 (2011 - $45,000) for management services and office administration from Pine Cliff. This fee has been included in other income. As at September 30, 2012, the Company had an account receivable from Pine Cliff of $2,000 (December 31, 2011 - $4,000).

8. SUBORDINATED PROMISSORY NOTE

As at September 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 nine months of 2012 was $338,000 (September 30, 2011 - $337,000).

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 September 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 facilities at September 30, 2012 were $128,779,000 (December 31, 2011 - $69,916,000). Amounts borrowed under the credit facilities at September 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 September 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 available cash flow for the preceding four fiscal quarters.

Availiable cash flow is defined to be cash provided by operating activities excluding gains on sale of property and investments, the change in non-cash working capital and decommissioning liabilities settled and including investment income included in cash used in investing activities. At September 30, 2012, the Company is in compliance with all covenants.

Effective October 5, 2012, the Company amended its bank facility with the same terms and conditions with the exception of increasing its syndicated revolving credit facility from $120,000,000 to $160,000,000, providing the Company with a total syndicated and non-syndicated credit facility of $180,000,000, and to increase the floating demand debentures from $200,000,000 to $300,000,000.

10. SHAREHOLDERS' EQUITY

Authorized

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

	September 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	**246,725**	**5,058**
Transfer from contributed surplus to share capital		**319**
Balance, end of period	**19,818,041**	**147,944**

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.

For the nine months ended September 30, 2012, the Company declared and paid dividends of $46,205,000 ($2.34 per share) (September 30, 2011 - $43,649,000 ($2.26 per share)).

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

	Three Months		Nine Months	
	2012	2011	**2012**	2011
Basic shares outstanding	**19,811,432**	19,331,808	**19,747,630**	19,312,195
Dilutive effect of share options [1]	**57,464**	344,148	**58,703**	362,605
Diluted shares outstanding	**19,868,896**	19,675,956	**19,806,333**	19,674,800

(1) The Company did not include 1,078,000 share options for the three months ended September 30, 2012 (September 30, 2011 – 623,000) and 1,068,000 share options for the nine months ended September 30, 2012 (September 30, 2011 – 617,000) 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 1,981,804 (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 September 30, 2012 and changes during the nine month period ended is presented below:

	Number of options	**Weighted average exercise price**
Balance, beginning of year	1,468,225	$ 46.63
Options granted	310,000	45.92
Options exercised	(246,725)	20.50
Options forfeited or cancelled	(155,000)	54.11
At September 30, 2012	1,376,500	$ 50.31

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

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number outstanding at September 30, 2012	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at September 30, 2012	Weighted-average exercise price
$ 20.50	91,500	0.2 years	$ 20.50	91,500	$ 20.50
40.00 – 49.00	223,000	3.0 years	43.21	3,000	48.60
50.00 – 59.00	1,062,000	2.6 years	54.37	43,000	58.18
$ 20.50 – $ 59.00	1,376,500	2.5 years	$ 50.31	137,500	$ 31.90

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 310,000 stock options with an estimated fair value of $1,591,000 or $5.13 per option using the Black-Scholes option pricing model with the following key assumptions:

	September 30, 2012
Weighted-average risk free interest rate (%)[1]	**1.12**
Expected life (years)	**1.98**
Weighted-average volatility (%) [2]	**31.76**
Forfeiture rate (%)	**0.00**
Weighted-average dividend yield (%)	**6.86**

(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 dates of exercises was $51.08 (December 31, 2011 - $53.38).

11. OIL AND GAS SALES, NET OF ROYALTIES

	Three Months		Nine Months	
($ 000s)	**September 30, 2012**	September 30, 2011	**September 30, 2012**	September 30, 2011
Oil and gas sales	**35,204**	36,535	**103,146**	119,459
Less:				
Crown royalties	**(1,942)**	(3,428)	**(7,291)**	(9,323)
Freehold, gross overriding and other royalties	**(720)**	(1,725)	**(3,016)**	(3,984)
Oil and gas sales, net of royalties	**32,542**	31,382	**92,839**	106,152

12. OTHER INCOME

	Three Months		Nine Months	
($ 000s)	**September 30, 2012**	September 30, 2011	**September 30, 2012**	September 30, 2011
Investment income	**50**	8	**122**	22
Administrative income	**83**	83	**248**	248
Gain on sale of property	**7**	158	**3,616**	162
Gain on sale of investments	**1,317**	272	**1,762**	2,126
Other income	**1,457**	521	**5,748**	2,558

13. SUBSEQUENT EVENTS

i) Dividends

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

Date declared	Record date	$ per share	Date payable
October 2, 2012	October 15, 2012	0.26	October 31, 2012
November 1, 2012	November 15, 2012	0.26	November 30, 2012

ii) Options

On October 30, 2012 the Company granted 632,000 stock options to employees, directors and consultants with an exercise price of $45.11, based on the market price immediately preceding the date of grant. The options vest between one to three years and expire between April 30, 2014 to April 30, 2016.

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
National Bank of Canada, Calgary, Alberta

Stock Listing

The Toronto Stock Exchange
Trading Symbol: BNE

Head Office

901, 1015 – 4th Street SW
Calgary, Alberta T2R 1J4
PH 403.262.5307
FX 403.265.7488

Website

www.bonterraenergy.com