



For the Six  
Months ended  
June 30, 2013

TSX: **BNE**  
www.bonterraenergy.com

## BONTERRA ENERGY REPORTS SECOND QUARTER 2013 FINANCIAL AND OPERATING RESULTS

### HIGHLIGHTS

As at and for the periods ended (\$ 000s except for \$ per share)	Three months ended		Six Months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
<b>FINANCIAL</b>				
Revenue – realized oil and gas sales	<b>79,344</b>	31,049	<b>145,812</b>	67,942
Funds flow <sup>(1)(5)</sup>	<b>50,566</b>	16,621	<b>91,341</b>	38,928
Per share – basic	<b>1.65</b>	0.84	<b>3.13</b>	1.97
Per share – diluted	<b>1.65</b>	0.84	<b>3.12</b>	1.97
Payout ratio	<b>51%</b>	93%	<b>52%</b>	79%
Funds flow <sup>(2)(5)</sup>	<b>50,566</b>	16,621	<b>95,160</b>	38,928
Per share – basic	<b>1.65</b>	0.84	<b>3.26</b>	1.97
Per share – diluted	<b>1.65</b>	0.84	<b>3.25</b>	1.97
Payout ratio	<b>51%</b>	93%	<b>50%</b>	79%
Cash flow from operations	<b>41,445</b>	14,727	<b>82,171</b>	36,425
Per share – basic	<b>1.35</b>	0.74	<b>2.81</b>	1.85
Per share – diluted	<b>1.35</b>	0.74	<b>2.81</b>	1.84
Payout ratio	<b>62%</b>	105%	<b>58%</b>	84%
Cash dividends per share	<b>0.84</b>	0.78	<b>1.64</b>	1.56
Net earnings	<b>15,119</b>	9,201	<b>27,814</b>	19,383
Per share – basic	<b>0.49</b>	0.47	<b>0.95</b>	0.98
Per share – diluted	<b>0.49</b>	0.46	<b>0.95</b>	0.98
Capital expenditures and acquisitions, net of dispositions	<b>9,731</b>	25,288 <sup>(3)</sup>	<b>59,237</b> <sup>(4)</sup>	46,701 <sup>(3)</sup>
Total assets			<b>987,067</b>	393,772
Working capital deficiency			<b>26,824</b>	42,082
Long-term debt			<b>179,379</b>	114,747
Shareholders' equity			<b>648,574</b>	176,292
<b>OPERATIONS</b>				
Oil (barrels per day) <sup>(1)</sup>	<b>8,414</b>	3,650	<b>7,939</b>	3,813
NGLs (barrels per day) <sup>(1)</sup>	<b>782</b>	428	<b>757</b>	424
Natural gas (MCF per day) <sup>(1)</sup>	<b>20,554</b>	11,753	<b>21,361</b>	12,006
Total barrels of oil equivalent per day (BOE) <sup>(1)</sup>	<b>12,621</b>	6,037	<b>12,256</b>	6,237
Total barrels of oil equivalent per day (BOE) <sup>(2)</sup>	<b>12,621</b>	6,037	<b>12,870</b>	6,237

<sup>(1)</sup> Six month figures for 2013 include the results of Spartan Oil Corp. (Spartan) for the period of January 25, 2013 to June 30, 2013. Production includes 157 days for Spartan and 181 days for Bonterra.

<sup>(2)</sup> Six month figures for 2013 include the results of Spartan for the period of January 1, 2013 to June 30, 2013. Production includes 181 days for Spartan and Bonterra.

<sup>(3)</sup> Includes an acquisition that closed on June 7, 2012 for \$17,108,000.

<sup>(4)</sup> Includes the Spartan acquisition that closed on January 25, 2013 that included \$10,000,000 of acquired cash that reduced capital expenditures from \$61,643,000 excluding dispositions.

<sup>(5)</sup> 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 working capital items and decommissioning expenditures settled.

## REPORT TO SHAREHOLDERS

Bonterra Energy Corp. (Bonterra or the Company) is pleased to announce its financial and operational results for the three months and six months ended June 30, 2013.

The second quarter of 2013 has been an exceptional quarter. The Company had record production, revenue, funds flow, net earnings and a debt level that is favourable amongst its peers. On a six month basis, funds flow is \$3.25 per share if the Spartan assets contribution is for 181 days or \$3.12 for 157 days using the January 25, 2013 closing date. Kindly review the following disclosure for additional positive highlights.

### Highlights

- Generated record fund flows from operations of \$50.6 million (\$1.65 per share) in the second quarter of 2013, as compared to \$40.8 million (\$1.47 per share; note 1) in the first quarter of 2013, an increase of 24.0 percent and \$16.6 million (\$0.84 per share) in the second quarter of 2012, an increase of 204.8 percent;
- Achieved a new average daily production record of 12,621 boe per day during the second quarter of 2013, compared to 11,887 boe per day in the first quarter of 2013 and 6,037 boe per day in the second quarter of 2012. Average daily production for the six month period was 12,256 (note 2; results would have been 12,870 boe per day), an increase of 96.5 percent over the same period in 2012. The increased production year over year is mainly due to the Spartan acquisition while quarter over quarter growth resulted primarily from strong production additions from the Pembina and Willesden Green Cardium drilling program;
- Substantially decreased operating costs to \$11.44 per boe in the second quarter of 2013, a reduction of 11.4 percent over the first quarter of 2013 and 28.3 percent over the second quarter of 2012;
- Recorded cash netbacks of \$43.52 per boe in the second quarter of 2013, an increase of 15.3 percent quarter over quarter and an increase of 43.9 percent over the same period in 2012 due mainly to higher realized commodity prices and decreased operating costs;
- Paid out \$0.84 per share in cash dividends to shareholders in Q2 2013. This represents a payout ratio of 51 percent of funds flow which is on the very low end of the Company's payout ratio guidance of 50 to 65 percent of funds flow;
- Completed a bought deal financing of 553,725 common shares at a price of \$49.85 per common share for gross proceeds of \$27.6 million. The financing closed subsequent to quarter end on July 2, 2013 and the funds will be used to increase the 2013 capital development budget from \$90 million to \$105 million and commence with studies to attempt to increase recovery of commodities;
- Maintained its strong balance sheet and reduced its net debt to cash flow ratio at June 30, 2013 to 1.25 to 1 times. This ratio has been further reduced as of July 2, 2013 with the proceeds of the bought deal financing of \$27.6 million;
- Announced the promotion of Adrian Neumann, Vice President, Engineering and Operations to the position of Chief Operating Officer.

Note 1: Quarterly figures for Q1 2013 include the results of Spartan Oil Corp. (Spartan) for the period of January 25, 2013 to March 31, 2013; 65 days for Spartan and 90 days for Bonterra.

Note 2: Quarterly figures for Q1 2013 include the results of Bonterra and Spartan for 90 days.

### Operations

Bonterra's operational focus in the first half 2013 was to integrate the Spartan assets into its operations, accelerate its winter drilling program in the first quarter to minimize the impact of spring break-up and to actively manage its corporate decline. As a result, the Company has maintained its full year 2013 average daily production guidance at 12,000 boe per day, preserved its balance sheet strength, continued to pay out a large percentage of funds flow in the form of a monthly dividend and is in a position to continue to provide steady annual production and reserves growth of approximately five to 10 percent on both a total and per share basis.

Bonterra spent approximately \$59.2 million on its capital development program during the first six months of the year and drilled 15 gross (14.8 net) operated Cardium horizontal wells and two (0.3 net) non-operated wells. In addition, Bonterra placed on production six (5.8 net) operated horizontal wells and four (1.0 net) non-operated horizontal wells that Spartan had drilled prior to Bonterra's acquisition in January, 2013. The increased operating activities led to record production levels in the second quarter of 12,621 boe per day. Due to spring break-up, the Company typically spends little capital in the second quarter each year and now looks to focus its operations on an active second half of 2013.

As referenced above, Bonterra's management and Board have elected to increase the capital development budget to \$105 million for the year. The Company currently plans to drill an additional 16 (15.9 net) operated wells and 21 (4.25 net) non-operated wells in the third and fourth quarters. The capital development program will continue to delineate the main Pembina pool and in the fourth quarter of the year the focus will shift to pad drilling in the Company's Carnwood area.

Bonterra's land position in the Carnwood area includes 38 gross (35 net) sections representing approximately 152 gross (140 net) locations at four wells per section. As the Company continues to explore increased well density within its land base to increase its ultimate oil recovery factor, it estimates that six to eight wells per section will likely become the standard for development of its Cardium assets. This would increase the Carnwood drilling inventory substantially to approximately 305 gross (280 net) locations at eight wells per section for this one area of its Cardium land base.

Bonterra's drilling in the Carnwood area has included the 1-10-048-07 well on the western edge which was completed with a nitrogen foam frac with 80 meter spacing and the 03-34-047-05 well which was completed with a nitrified slickwater frac with 80 meter spacing on the eastern edge of the area. These wells have recorded some of Bonterra's best production results to date and have produced 29,139 barrels of oil and 32,636 barrels of oil, respectively, over a five month cumulative period. With the outer edges of the Carnwood area delineated, the Company now intends to target increased well density throughout the area with a targeted pad drilling program. Pad drilling involves drilling multiple horizontal wells from a single surface location and should result in fewer drilling days, reduced costs, onstream efficiencies and a smaller environmental footprint. Based on the results of the Carnwood program, the Company anticipates that increased well density and pad drilling will be used across its Cardium asset base to lower costs, drive higher recovery rates and ultimately produce higher rates of return.

Bonterra has had great success thus far in applying new drilling and completion technologies, improving well performance and reducing costs. In addition, Bonterra is also investigating the potential for secondary recovery methods on its Cardium lands and will look to further calibrate its development of the Cardium assets to optimize overall recoveries.

## **Financial**

Oil and natural gas prices continued to increase during the second quarter of 2013 and the Company's average realized price for crude oil was \$89.38 per barrel in Q2 2013, an increase of 6.2 percent over the first quarter of the year and an increase of 10.4 percent over the second quarter of 2012. As a result of this improved price environment and the significant production volume increases, revenue and cash flow from operations for the first six months of 2013 increased 114.6 percent and 134.6 percent, respectively, over the same period in 2012.

The Company's netback of \$40.74 per BOE for the first six months of 2013 represents an increase of 22.7 percent year over year but remains below the Company's 2013 annual guidance of approximately \$43.00 per BOE as natural gas accounted for 29 percent of production within this timeframe. However, the cash netback for the second quarter of 2013 was \$43.52 per boe and the Company continues to anticipate that the cash netback will be within guidance for the full year 2013 as the remaining wells in the 2013 drilling program are expected to have an increased liquids/gas ratio.

Bonterra has maintained its focus on balance sheet strength and conservative financial management. Subsequent to quarter end, the Company closed a bought deal financing of 553,725 common shares at a price of \$49.85 per common share for gross proceeds of \$27.6 million. The funds will be used to temporarily reduce outstanding bank debt which will result in a reduction of the debt to cash flow ratio. The Company believes it is vital to maintain its net debt to cash flow ratio in the 1 to 1 to 1.5 to 1 times range. At June 30, 2013, the Company was well within its guidance at 1.25 to 1 times and the Company will continue to closely monitor this ratio by managing its cash flow, capital expenditure ranges and dividend payment over the year to ensure that it remains within its targeted guidance for the full year 2013.

## **Outlook**

Bonterra is very well-positioned for continued improvements in operational performance and results across the second half of the year and well into the future. It has one of the largest inventories of drilling locations in the industry. The Company looks forward to maintaining its focus on the long-term development of its extensive and high-quality Cardium assets and in the near-term, will execute on the Company's 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 13, 2013 is a review of the operations and current financial position for the six months ended June 30, 2013 for Bonterra Energy Corp. (Bonterra or the Company) and should be read in conjunction with the unaudited condensed consolidated financial statements and the audited financial statements including the notes related thereto for the fiscal year ended December 31, 2012 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.

### Frequently Recurring Terms

Bonterra uses the following frequently recurring terms in this MD&A: "bbl" refers to barrel, "NGL" refers to Natural gas liquids, "MCF" refers to thousand cubic feet and "BOE" refers to barrels of oil equivalent. Disclosure provided herein in respect of a BOE may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 MCF: 1 bbl is based on an energy conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

### Numerical Amounts

The reporting and the functional currency of the Company is the Canadian dollar.

## Quarterly Comparisons

As at and for the periods ended (\$ 000s except \$ per share)	2013		2012			
	Q2	Q1 <sup>(1)</sup>	Q4	Q3	Q2	Q1
<b>Financial</b>						
Revenue – oil and gas sales	79,344	66,468	39,624	35,204	31,049	36,893
Cash flow from operations	41,445	40,726	21,460	16,440	14,727	21,698
Per share – basic	1.35	1.47	1.08	0.83	0.74	1.10
Per share – diluted	1.35	1.46	1.08	0.83	0.74	1.10
Payout ratio	62%	53%	72%	94%	105%	71%
Cash dividends per share	0.84	0.80	0.78	0.78	0.78	0.78
Net earnings	15,119	12,695	6,082	7,746	9,201	10,182
Per share – basic	0.49	0.46	0.31	0.39	0.47	0.52
Per share – diluted	0.49	0.46	0.31	0.39	0.46	0.51
Capital expenditures and acquisitions, net of dispositions	9,731	39,506 <sup>(2)</sup>	24,069	27,360	25,288 <sup>(3)</sup>	21,413
Total assets	987,067	1,016,594	419,933	412,812	393,772	371,757
Working capital deficiency	26,824	31,519	29,876	49,808	42,082	57,889
Long-term debt	179,379	189,509	166,808	128,779	114,747	75,543
Shareholders' equity	648,574	658,062	163,277	169,839	176,292	181,008
<b>Operations</b>						
Oil (barrels per day)	8,414	7,459	4,400	4,108	3,650	3,975
NGLs (barrels per day)	782	732	595	461	428	419
Natural gas (MCF per day)	20,554	22,176	16,009	12,583	11,753	12,260
Total BOE per day	12,621	11,887	7,663	6,666	6,037	6,438

<sup>(1)</sup> Quarterly figures for Q1 2013 include the results of Spartan Oil Corp. (Spartan), for the period of January 25, 2013 to March 31, 2013. Production includes 65 days for Spartan and 90 days for Bonterra.

<sup>(2)</sup> Includes the Spartan acquisition that closed on January 25, 2013 that included \$10,000,000 of acquired cash that reduced capital expenditures from \$49,506,000.

<sup>(3)</sup> Includes an asset acquisition that closed on June 7, 2012 for \$17,108,000

As at and for the periods ended (\$ 000s except \$ per share)	2011			
	Q4	Q3	Q2	Q1
<b>Financial</b>				
Revenue – oil and gas sales	42,818	36,535	44,754	38,170
Cash flow from operations	26,180	21,730	25,465	24,034
Per share – basic	1.35	1.12	1.32	1.25
Per share – diluted	1.33	1.10	1.29	1.22
Payout ratio	58%	69%	59%	58%
Cash dividends per share	0.78	0.78	0.78	0.72
Net earnings	6,067	9,384	14,533	13,624
Per share – basic	0.31	0.49	0.75	0.71
Per share – diluted	0.31	0.48	0.74	0.69
Capital expenditures and acquisitions, net of disposals	20,529	15,941	5,872	20,344
Total assets	364,176	354,549	348,097	357,000
Working capital deficiency	51,576	43,362	30,823	39,777
Long-term debt	69,916	72,391	72,608	70,568
Shareholders' equity	181,640	185,908	192,297	192,054
<b>Operations</b>				
Oil (barrels per day)	4,096	3,789	4,164	4,258
NGLs (barrels per day)	493	340	372	338
Natural gas (MCF per day)	12,541	10,553	11,024	10,517
Total BOE per day	6,679	5,887	6,373	6,350

## Business Environment and Sensitivities

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 eight quarters to assist in understanding volatility in prices and foreign exchange rates that have impacted Bonterra's financial and operating performance.

	Q2-2013	Q1-2013	Q4-2012	Q3-2012	Q2-2012	Q1-2012	Q4-2011	Q3-2011
Crude oil								
WTI (U.S.\$/bbl)	94.22	94.37	88.18	92.22	93.49	102.93	94.06	89.76
Bonterra average realized price (Cdn\$/bbl)	89.38	84.20	78.58	80.54	80.93	88.48	96.25	88.21
Natural gas								
AECO (Cdn\$/mcf)	3.52	3.18	3.20	2.31	1.89	2.15	3.19	3.65
Bonterra average realized price (Cdn\$/mcf)	4.13	3.21	3.43	2.41	1.96	2.32	3.34	3.91
Foreign exchange Cdn\$/U.S.\$	1.0234	1.0089	0.9913	0.9948	1.0102	1.0012	1.0231	0.9802

During 2012, the price differentials between Bonterra's average realized price and WTI substantially increased, due in most part to reduced demand because of refinery outages and seasonal turnarounds, the inability to get oil to markets because of pipeline capacity constraints and quality adjustments. However, in Q4 2012 the differential began to narrow and in Q2 2013 the differential tightened to an average of approximately \$3.00 (WTI to Bonterra's average realized price before quality adjustments). Although we are seeing a tightening of the differential due in part to rail movement of oil and U.S. midcontinent and Gulf Coast refiners wanting as many barrels as possible at this time, there is still potential for the price differentials to remain volatile in future periods.

The following chart shows the Company's sensitivity to key commodity price variables. The sensitivity calculations are performed independently showing the effect of the change of one variable; with all other variables being held constant.

Annualized sensitivity analysis on cash flow, as estimated for 2013<sup>(1)</sup>

Impact on cash flow	Change (\$)	\$000s	\$ per share <sup>(2)</sup>
Realized crude oil price (\$/bbl)	1.00	2,413	0.08
Realized natural gas price (\$/mcf)	0.10	691	0.02

<sup>(1)</sup> This analysis uses current royalty rates, annualized estimated average production of 12,000 BOE per day and no changes in working capital

<sup>(2)</sup> Based on annualized basic weighted average shares outstanding of 30,200,077.

## Business Overview, Strategy and Key Performance Drivers

On January 25, 2013, Bonterra acquired 100 percent of the issued and outstanding common shares of Spartan Oil Corp. (Spartan) pursuant to an arrangement agreement in which Spartan became a wholly owned subsidiary. Spartan was a public oil and gas company with properties in Alberta and Saskatchewan. Consideration for Spartan shares was 0.1169 voting common shares of Bonterra, which amounted to the issuance of 10,711,405 Bonterra shares valued at \$502,258,000. The Spartan acquisition adds to Bonterra's sustainable, high-netback, production profile, company-owned infrastructure and its high-quality, multi-year drilling inventory that is in excess of 10 years (assuming four wells per section). On March 1, 2013, Spartan amalgamated with Bonterra.

If Spartan had been acquired on January 1, 2013, those assets for the first six months of 2013 would have added total revenue (primarily oil and gas sales, net of royalties) of \$55,171,000 and production of 4,797 BOE per day. The combined production for the Company for the full six months would have been 12,870 BOE per day. In addition Spartan assets would have added operating and administrative expenses of \$7,779,000 for the six month period ended June 30, 2013. Producing assets acquired in the Spartan acquisition are approximately 83 percent crude oil and natural gas liquids.

The Company incurred expenditures of \$61,643,000 related to its capital program for the first six months of 2013, the majority of which occurred in Q1 2013. There was virtually no drilling and minimal other activities in the second quarter due to spring break-up that temporarily prevents the Company from accessing lease sites to continue its horizontal development program.

Due to the success of the Company's drilling program and the \$27,603,000 bought deal financing subsequent to June 30, 2013, the Company anticipates increasing its 2013 capital program from \$90,000,000 to approximately \$105,000,000.

Bonterra's successful operations are dependent upon several factors, including but not limited to, the price of energy commodity products, efficiently managing capital spending, its ability to maintain desired levels of production, control over its infrastructure, its efficiency in developing and operating properties and its ability to control costs. The Company's key measures of performance with respect to these drivers include, but are not limited to, average production per day, average realized prices and average operating costs per unit of production. Disclosure of these key performance measures can be found in the MD&A and/or previous interim or annual MD&A disclosures.

## Drilling

(\$000s)	Three months ended						Six months ended			
	June 30, 2013		March 31, 2013		June 30, 2012		June 30, 2013		June 30, 2012	
	Gross <sup>(1)</sup>	Net <sup>(2)</sup>	Gross <sup>(1)</sup>	Net <sup>(2)</sup>	Gross <sup>(1)</sup>	Net <sup>(2)</sup>	Gross <sup>(1)</sup>	Net <sup>(2)</sup>	Gross <sup>(1)</sup>	Net <sup>(2)</sup>
Crude oil horizontal-operated	-	-	15	14.8	3	2.6	15	14.8	8	7.6
Crude oil horizontal- non-operated	-	-	2	0.3	-	-	2	0.3	2	0.3
Total	-	-	17	15.1	3	2.6	17	15.1	10	7.9
Success rate	100%		100%		100%		100%		100%	

<sup>(1)</sup> "Gross" wells means the number of wells in which Bonterra has a working interest.

<sup>(2)</sup> "Net" wells means the aggregate number of wells obtained by multiplying each gross well by Bonterra's percentage of working interest.

During the first six months of 2013, the Company placed three gross (3.0 net) wells on production that were drilled in the later part of 2012 and drilled 15 gross (14.8 net) wells in Q1 2013, which were placed on production by the end of June 2013. The Company did not drill any wells in the second quarter due to spring break-up. Two additional gross (0.3 net) non-operated wells were drilled and placed on production during 2013.

In addition, prior to the Bonterra acquisition, Spartan drilled six (5.8 net) wells in late 2012, all of which were placed on production in the first quarter of 2013. Spartan also had four (1.0 net) non-operated wells that were drilled prior to the Bonterra acquisition that were placed on production in the first quarter of 2013.

## Production

	Three months ended			Six Months ended	
	June 30, 2013	March 31, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Crude oil (barrels per day)	8,414	7,459	3,650	7,939	3,813
NGLs (barrels per day)	782	732	428	757	424
Natural gas (MCF per day)	20,554	22,176	11,753	21,361	12,006
Average BOE per day <sup>(1)</sup>	12,621	11,887	6,037	12,256	6,237

<sup>(1)</sup> In the first half of 2013, average daily production included 181 days of Bonterra production and 157 days of Spartan production (90 days of Bonterra production and 65 days of Spartan production for Q1 2013)

Production volumes during the first six months of 2013 increased to 12,256 BOE per day compared to 6,237 BOE per day or 97 percent during the same period in 2012. The increase in production is primarily due to the Spartan

acquisition. The Company's drilling program in the second half of 2012 and the first quarter of 2013 in the Pembina and Willesden Green areas also contributed to the increase in production.

Production volumes for Q2 2013 increased by six percent compared to Q1 2013, which was primarily due to a full quarter of production from the Spartan assets and the flush production from the 15 wells drilled in the first quarter of 2013. These additions to production were partially offset by down time from gas plant turnarounds and compressor maintenance which is commonly done during spring break up, causing 480 BOE per day to be shut in for the second quarter. With the Company's planned drilling program for the second half of 2013, the Company still anticipates meeting its average annual production guidance of 12,000 BOE per day.

## 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			Six Months ended	
	June 30, 2013	March 31, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Production volumes (BOE)	<b>1,148,535</b>	1,069,798	549,348	<b>2,218,333</b>	1,135,177
Gross production revenue	<b>\$69.08</b>	\$62.13	\$56.52	<b>\$65.73</b>	\$59.85
Royalties	<b>(10.21)</b>	(6.36)	(5.55)	<b>(8.35)</b>	(6.74)
Field operating costs	<b>(11.44)</b>	(12.92)	(15.96)	<b>(12.16)</b>	(15.70)
Field netback	<b>\$47.43</b>	\$42.85	\$35.01	<b>\$45.22</b>	\$37.41
General and administrative <sup>(1)</sup>	<b>(1.71)</b>	(3.25)	(2.83)	<b>(2.45)</b>	(2.58)
Interest and other	<b>(2.20)</b>	(1.84)	(1.94)	<b>(2.03)</b>	(1.63)
Cash netback	<b>\$43.52</b>	\$37.76	\$30.24	<b>\$40.74</b>	\$33.20

<sup>(1)</sup> Includes non-recurring expenses of \$0.44 per BOE for the first six months of 2013 (Q1 2013 - \$0.92 per BOE) due to the Spartan acquisition.

Cash netbacks have increased for the first six months of 2013 compared to 2012 primarily due to higher realized commodity prices and lower operating costs. Quarter over quarter cash netbacks increased due to an increase in realized commodity prices, lower operating and general and administration costs, offset by higher royalties of approximately \$2.00 per BOE due to a one-time freehold royalty adjustment incurred in the second quarter.

## Oil and Gas sales

(\$ 000s)	Three months ended			Six Months ended	
	June 30, 2013	March 31, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Revenue – oil and gas sales	<b>79,344</b>	66,468	31,049	<b>145,812</b>	67,942
Average Realized Prices (\$):					
Crude oil (per barrel)	<b>89.38</b>	84.20	80.93	<b>86.96</b>	84.87
NGLs (per barrel)	<b>44.64</b>	53.75	53.02	<b>49.02</b>	56.62
Natural gas (per MCF)	<b>4.13</b>	3.21	1.96	<b>3.66</b>	2.15
Average (per BOE)	<b>69.08</b>	62.13	56.52	<b>65.73</b>	59.85

Revenue from oil and gas sales increased by \$77,870,000 in the first six months of 2013 or 115 percent compared to the comparable six month period in 2012. This increase was primarily due to a 97 percent increase in production due to the Spartan acquisition and the successful results of Bonterra's drilling program. Average realized price per BOE increased in 2013 to the comparable period a year ago, due to higher realized prices received for crude oil and natural gas.



The quarter over quarter increase in oil and gas revenues of 19 percent or \$12,876,000, was due to a full quarter of increased production from the Spartan acquisition and Bonterra's Q1 2013 drilling program, along with higher realized prices for crude oil and natural gas.

The Company's product split on a revenue basis for 2013 is approximately 90 percent weighted towards crude oil and NGLs. This ratio will likely remain similar or increase as the Company continues to develop its Pembina and Willesden Green Cardium (mainly oil) properties.

## Royalties

(\$ 000s)	Three months ended			Six Months ended	
	June 30, 2013	March 31, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Crown royalties	4,903	3,984	2,203	8,887	5,349
Freehold, gross overriding and other royalties	6,824	2,820	846	9,645	2,296
<b>Total royalties</b>	<b>11,727</b>	<b>6,804</b>	<b>3,049</b>	<b>18,532</b>	<b>7,645</b>
Crown royalties - percentage of revenue	6.2	6.0	7.1	6.1	7.9
Freehold, gross overriding and other royalties - percentage of revenue	8.6	4.2	2.7	6.6	3.4
Royalties – percentage of revenue	14.8	10.2	9.8	12.7	11.3
Royalties \$ per BOE	10.21	6.36	5.55	8.35	6.74

Royalties paid by the Company consist of Crown royalties paid to the Provinces of Alberta, Saskatchewan and British Columbia. The Company's average Crown royalty rate is approximately 6.1 percent for the first six months of 2013 compared to 7.9 percent for the comparable period in 2012. The decrease is primarily due to a lower percentage of crown wells acquired from Spartan and horizontal Cardium wells that are still eligible for the initial five percent royalty rate until accumulated production thresholds are met or the expiry of time allowed to reach the threshold levels. A significant portion of those initial five percent royalty rate wells are from wells recently drilled.

Non-crown royalties increased for the first six months of 2013 compared to the same period in 2012 primarily due to additional oil and gas revenue from wells subject to non-crown royalties from the Spartan acquisition and recent non-operated wells drilled in the Tomahawk area. The percent increase in non-crown royalties' quarter over quarter is primarily due to a \$2,000,000 freehold royalty adjustment in the second quarter of 2013.

## Production Costs

(\$ 000s except \$ per BOE)	Three months ended			Six Months ended	
	June 30, 2013	March 31, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Production costs	13,144	13,826	8,767	26,970	17,823
\$ per BOE	11.44	12.92	15.96	12.16	15.70

On a BOE basis, production costs have decreased by 23 percent during the six month period. However, total production costs for 2013 increased 51 percent from the comparable period in 2012.

The decrease on a BOE basis is primarily due to production from the recently drilled horizontal wells which have lower operating costs per BOE, due to higher production volumes over the same fixed costs versus vertical wells. In addition, the Spartan assets have access to a wholly owned gas plant facility that has lower compression, gathering and processing costs. These factors have significantly reduced combined operating costs on a BOE basis.

Quarter over quarter operating costs on a BOE basis have decreased 11 percent primarily due to a full quarter of increased production from recently drilled wells and a full quarter of production from the Spartan acquisition.

## Other Income

(\$ 000s)	Three months ended			Six Months ended	
	June 30, 2013	March 31, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Realized gain on investments	163	115	-	278	445
Gain on sale of property	212	-	2,500	212	3,609
Administrative income	8	53	83	61	165
Investment income	32	35	66	67	72
	<b>252</b>	<b>88</b>	<b>2,649</b>	<b>340</b>	<b>3,846</b>

During 2013, the Company disposed of a portion of its investments for gross proceeds of \$968,000 (June 30, 2012 - \$3,609,000).

The increase in carrying value is mainly due to increased share prices, partially offset by the investments sold in the period. The market value of the investments held by the Company is \$4,735,000 at June 30, 2013 (December 31, 2012 - \$5,046,000).

During 2013, the Company sold a portion of its non-core Southeast Saskatchewan property for cash proceeds of \$2,406,000. At the time of disposition the Company had a carrying value of \$1,373,000 for exploration and evaluation expenditures, \$954,000 for property plant and equipment and \$133,000 of decommissioning liabilities resulting in a gain on sale of \$212,000.

During 2012, the Company disposed of a portion of its Central Alberta Redwater and Tomahawk properties for proceeds of \$1,109,000 and \$2,500,000 respectively. At the time of disposition, the properties had no carrying value which resulted in an accounting gain on sale equal to its proceeds.

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

## General and Administration (G&A) Expense

(\$ 000s except \$ per BOE)	Three months ended			Six Months ended	
	June 30, 2013	March 31, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Employee compensation expense	1,494	1,387	1,102	2,881	2,164
Office and administration expense (recurring)	465	1,103	455	1,568	766
	<b>1,959</b>	<b>2,490</b>	<b>1,557</b>	<b>4,449</b>	<b>2,930</b>
Office and administration expense (non-recurring) <sup>(1)</sup>	-	992	-	992	-
Total G&A expense	<b>1,959</b>	<b>3,482</b>	<b>1,557</b>	<b>5,441</b>	<b>2,930</b>
\$ per BOE (recurring)	1.71	2.33	2.83	2.01	2.58
\$ per BOE (total)	1.71	3.25	2.83	2.45	2.58

<sup>(1)</sup> Non-recurring office and administration costs relates to the acquisition of Spartan.

Total G&A expense increased to \$5,441,000 for the six months ended June 30, 2013 from \$2,930,000 for the comparable period in 2012.

The increase in employee compensation expense of \$717,000 for 2013 compared to a year ago (and \$107,000 quarter over quarter) are primarily due to the increased number of staff required to accommodate the increased activity from the Spartan acquisition and an increase in accrued bonuses, due to higher net earnings before income taxes. The Company has a bonus plan in which the bonus pool consists of three percent of earnings before income

taxes. The 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.

The increase in recurring office and administration expense for 2013 compared to 2012, related to an increase in consulting fees, computer software costs and the allowance for doubtful accounts. The decrease quarter over quarter relates primarily to a decrease in consulting fees and decreased software costs compared to Q1 2013.

## Finance Costs

(\$ 000s except \$ per BOE)	Three months ended			Six Months ended	
	June 30, 2013	March 31, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Interest on long-term debt	1,875	1,603	757	3,478	1,335
Other interest	255	181	447	436	749
Interest expense	2,130	1,784	1,204	3,914	2,084
\$ per BOE	1.85	1.67	2.19	1.76	1.84
Unwinding of the discounted value of decommissioning liabilities	278	242	217	520	435
<b>Total finance costs</b>	<b>2,408</b>	<b>2,026</b>	<b>1,421</b>	<b>4,434</b>	<b>2,519</b>

Interest on long-term debt increased \$1,830,000 in 2013 compared to the same period a year ago as the Company increased the bank debt by \$64,632,000 from the end of the second quarter of 2012. The increase was due to increased spending in the capital drilling program in the second half of 2012 and into the first quarter of 2013 and a \$20,000,000 repayment of a short-term related party loan. The Company also experienced higher interest rates on its credit facilities in the first and second quarters of 2013. Interest rates are determined by net debt to cash flow ratios on a trailing quarterly basis. With the increased cash flow from the Spartan acquisition in the first half of the year and the \$27,603,000 raised from the equity issuance on July 2, 2013 (see Shareholders' Equity section), the Company should experience lower interest rates beginning in Q3 2013.

Other interest relates to amounts paid to related parties (see related party transactions) and a \$25,000,000 subordinated promissory note from a private investor.

From a sensitivity perspective on the estimated loan amounts, a one percent increase (decrease) in the Canadian prime rate would decrease (increase) both annual net earnings and comprehensive income by \$1,435,000.

## Share-based Payments

(\$ 000s)	Three months ended			Six Months ended	
	June 30, 2013	March 31, 2013	June 30, 2012	June 30, 2013	June 30, 2012
	1,135	1,192	865	2,327	1,937

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 \$1,091,000 will be recorded for the remainder 2013, \$818,000 for 2014, \$257,000 for 2015 and \$17,000 for 2016. For more information about options issued and outstanding, refer to Note 12 of the June 30, 2013 condensed financial statements.

## Depletion and Depreciation, Exploration and Evaluation and Goodwill

(\$ 000s)	Three months ended			Six Months ended	
	June 30, 2013	March 31, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Depletion and depreciation	28,582	19,561	7,298	48,143	14,926
Exploration and evaluation expense	-	276	-	276	-

Provision for depletion and depreciation increased by \$33,217,000 for the first six months of 2013 compared to 2012. The increase in depletion and depreciation was mainly the result of increased production volumes and increased property, plant and equipment costs from the Spartan acquisition. The quarter over quarter increase was primarily due to a full quarter of depletion and depreciation on the Spartan assets and on the new wells drilled in Q1 2013.

Exploration and evaluation expense related to expired leases.

With the Spartan business combination, Bonterra also recorded goodwill. Goodwill has been allocated to the primary cash generating unit that consists of the Pembina and Willesden Green Cardium assets in Alberta, Canada.

There were no impairment provisions recorded for the three or six month period ended June 30, 2013.

### Taxes

The Company recorded a deferred tax expense of \$12,036,000 for 2013 (June 30, 2012 - \$5,070,000). The deferred tax expense increase in 2013 compared to 2012 is primarily related to increased earnings before income taxes.

At June 30, 2013, the Company has \$591,029,000 of tax pools, which may be used to reduce taxable income in future years, limited to various rates of utilization. The Company also has \$27,670,000 (December 31, 2012 - \$27,670,000) remaining of investment tax credits that expire between the years 2018 to 2027. In addition, the Company has \$134,938,000 (December 31, 2012 - \$135,502,000) of capital loss carry forwards which can only be claimed against taxable capital gains. For additional information regarding income taxes, see Note 8 of the June 30, 2013 condensed financial statements.

### Net Earnings

(\$ 000s except \$ per share)	Three months ended			Six Months ended	
	June 30, 2013	March 31, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Net earnings	15,119	12,695	9,201	27,814	19,383
\$ per share – basic	0.49	0.46	0.47	0.95	0.98
\$ per share – diluted	0.49	0.46	0.46	0.95	0.98

Net earnings in the first six months of 2013 increased by \$8,431,000 or 43 percent from the comparable period of 2012. Increased net earnings resulted primarily from increased oil and gas production volumes and prices per BOE. This increase was partially offset by an increase in depletion and depreciation, deferred tax expense and production costs.

The increase in net earnings for Q2 2013 compared to Q1 2013 also resulted from increased oil and gas production volumes and prices per BOE, a decrease deferred tax expense and no Spartan acquisition costs in the second quarter. This was partially offset by an increase in royalties and depletion and depreciation expense.

## Other Comprehensive Income

Other comprehensive income for 2013 consists of an unrealized gain before tax on investments (including investments in a related party) of \$656,000 relating to an increase in the investments' fair value (June 30, 2012 – unrealized loss of \$176,000). The Company also disposed of a portion of these investments in 2013 for a realized gain before tax of \$278,000 (June 30, 2012 - \$445,000). Realized gains decrease other comprehensive income as these 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			Six Months ended	
	June 30, 2013	March 31, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Cash flow from operations	<b>41,445</b>	40,726	14,727	<b>82,171</b>	36,425
\$ per share – basic	<b>1.35</b>	1.47	0.74	<b>2.81</b>	1.85
\$ per share – diluted	<b>1.35</b>	1.46	0.74	<b>2.81</b>	1.84

In 2013, cash flow from operations increased by \$45,746,000 compared to the same period a year ago. This was primarily due to increased production and lower production costs realized from the Spartan acquisition, which combined with higher commodity prices, resulted in increased field net backs.

## Related Party Transactions

Bonterra holds 1,034,523 (December 31, 2012 – 1,034,523) common shares in Pine Cliff which represents less than one percent ownership in Pine Cliff's outstanding common shares. Pine Cliff's common shares have a fair market value as of June 30, 2013 of \$941,000 (December 31, 2012 - \$910,000). Pine Cliff paid a management fee to the Company of \$30,000 plus administrative costs (June 30, 2012 - \$165,000 plus administrative costs from Pine Cliff and its subsidiary Geomark). 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. As at June 30, 2013, the Company had an account receivable from Pine Cliff of \$113,000 (December 31, 2012 – \$45,000).

As at June 30, 2013, the Company's CEO, Chairman of the Board and major shareholder has loaned the Company \$12,000,000 (December 31, 2012 - \$12,000,000). The loan bears interest at Canadian chartered bank prime less 5/8<sup>th</sup> 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 2013 was \$141,000 (June 30, 2012 - \$142,000). 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

### Working Capital Deficiency

(\$ 000s)	June 30, 2013	December 31, 2012	June 30, 2012
Working capital deficiency	<b>26,824</b>	29,876	42,082
Long-term bank debt	<b>179,379</b>	166,808	114,747
Net debt	<b>206,203</b>	196,684	156,829
Shareholders' equity	<b>648,574</b>	163,277	176,292
Total	<b>854,777</b>	359,961	333,121

## **Net Debt and Working Capital**

Net debt is a combination of long-term bank debt and working capital. The increase in net debt from \$156,829,000 at June 30, 2012 to \$206,203,000 at June 30, 2013 is primarily attributable to the substantial decrease in commodity prices in 2012, leading to lower field net backs and reduced cash flow from operations. In addition, the Company increased capital spending in the second half of 2012, while at the same time maintaining the dividends paid to shareholders. With the acquisition of Spartan, the Company has experienced a reduction in its debt to cash flow ratio with the increased cash flow from the combined operations, while at the same time spending approximately half of its originally targeted capital of approximately \$90,000,000 in Q1 2013.

Working capital is calculated as current liabilities less current assets. The Company finances its working capital deficiency using cash flow from operations, its long-term bank facility, share issuances, option exercises and sale of investments.

On April 4, 2013, the Company increased its Subordinated Promissory Note by an additional \$10,000,000, for a total of \$25,000,000 under the same terms and conditions. For more information see Note 10 of the June 30, 2013 condensed financial statements.

Subsequent to June 30, 2013 the Company completed a \$27,603,000 equity issuance. These funds will be used to temporarily reduce the outstanding bank debt, which will result in a reduction of the debt to cash flow ratio.

With the Spartan transaction, the Company inherited a derivative financial instrument entered into by Spartan. The financial derivative is outstanding for the period January 1, 2013, to December 31, 2013 for a total 273,750 barrels of oil (approximately 750 barrels of oil per day) at a fixed price of Cdn \$90.00 per barrel. It is estimated that a 10 percent change in the forward crude oil prices would result in an \$889,000 change in net earnings for the six month period ended June 30, 2013.

## **Capital Expenditures**

During the six month period ended June 30, 2013, the Company incurred capital costs of \$59,237,000 (June 30, 2012 - \$29,536,000) net of proceeds of \$2,406,000 on disposal of property, plant and equipment. The Company spent \$49,506,000 primarily on the drilling of 15 gross (14.8 net) Pembina and Willesden Green Cardium operated horizontal wells and two (0.3 net) non-operated wells, facilities and gathering systems in the first quarter to have the new production tied in and producing prior to spring break-up, where wet weather conditions cause access problems to wells and facilities. The Company spent an additional \$9,731,000 in the second quarter, after proceeds on disposal of property, plant and equipment, primarily to finish completing and tying in the new wells drilled in Q1 2013.

As previously mentioned with the increased cash flow and the subsequent equity financing, the Company plans to increase its 2013 capital budget and looks to invest approximately \$45,000,000 in the second half of 2013 on its capital drilling program.

## **Long-term Debt**

Long-term debt represents the outstanding draws from the Company's credit facilities as described in the notes to the interim condensed financial statements. As of June 30, 2013, the Company has bank facilities consisting of a \$220,000,000 (December 31, 2012 - \$160,000,000) syndicated revolving credit facility and a \$30,000,000 (December 31, 2012 - \$20,000,000) non-syndicated revolving credit facility, for total facilities of \$250,000,000. Amounts drawn under these facilities at June 30, 2013 totaled \$179,379,000 (December 31, 2012 - \$166,808,000). The interest rates on the outstanding debt as of June 30, 2013 were 4.75 percent and 4.2 percent on the Company's Canadian prime rate loans and Banker's Acceptances, respectively. The loan is revolving to April 24, 2014, with a maturity date of April 25, 2015 and is subject to annual review. The revolving credit facilities have no fixed terms of repayment.

Advances drawn under the credit facilities are secured by a fixed and floating charge debenture over the assets of the Company. In the event the credit facilities are not extended or renewed, amounts drawn under the facility would be due and payable on the maturity date. The size of the committed credit facilities is based primarily on the value of the Company's producing petroleum and natural gas assets and related tangible assets as determined by the lenders. For more information see Note 11 of the June 30, 2013 condensed financial statements.

## Shareholders' Equity

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

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.

	<b>Number</b>	<b>Amount (\$ 000s)</b>
Issued and fully paid – common shares		
Balance, December 31, 2012	<b>19,909,541</b>	<b>149,877</b>
Acquisition	<b>10,711,405</b>	<b>502,258</b>
Balance, June 30, 2013	<b>30,620,946</b>	<b>652,135</b>

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 3,062,095 (December 31, 2012 – 1,990,954) common shares. The exercise price of each option granted will not be lower than the market price of the common shares on the date of grant and the option's maximum term is three years. For additional information regarding options outstanding, see Note 12 of the June 30, 2013 condensed financial statements.

On July 2, 2013, the Company announced the closing of a bought deal financing of 553,725 common shares at a price of \$49.85 per common share, for aggregate gross proceeds of \$27,603,000. The Company incurred issue costs of approximately \$1,500,000 in respect of the offering.

## Dividend Policy

For the six month period ended June 30, 2013, Bonterra paid dividends of \$47,433,000 (\$1.64 per share) compared to \$30,752,000 (\$1.56 per share) in the same period in 2012. 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.

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 58 percent for the six months ended June 30, 2013 (84 percent for the six months ended June 30, 2012).

## Net Debt to Cash Flow

Bonterra continues to focus on managing its cash flow, capital expenditure ranges and dividend payments. Annualizing the first half of 2013 cash flow, the Company met its annual guidance range of 1 to 1 times to 1.5 to 1 times net debt to cash flow ratio with a ratio of 1.25 to 1 times. The Company anticipates the Spartan

acquisition (see Note 4 to the condensed financial statements) and successful 2013 drilling program will continue to sustain future cash flows and shareholder dividends and continue to improve the debt to cash flow ratio.

## Quarterly Financial Information

For the periods ended (\$ 000s except \$ per share)	2013			2012		
	Q2	Q1	Q4	Q3	Q2	Q1
Revenue – oil and gas sales	79,344	66,468	39,624	35,204	31,049	36,893
Cash flow from operations	41,445	40,726	21,460	16,440	14,727	21,698
Net earnings	15,119	12,695	6,082	7,746	9,201	10,182
Per share – basic	0.49	0.46	0.31	0.39	0.47	0.52
Per share – diluted	0.49	0.46	0.31	0.39	0.46	0.51

  

For the periods ended (\$ 000s except \$ per share)	2011			
	Q4	Q3	Q2	Q1
Revenue – oil and gas sales	42,818	36,535	44,754	38,170
Cash flow from operations	26,180	21,730	25,465	24,034
Net earnings	6,067	9,384	14,533	13,624
Per share – basic	0.31	0.49	0.75	0.71
Per share – diluted	0.31	0.48	0.74	0.69

The fluctuations in the Company's revenue and net earnings from quarter to quarter are primarily caused by variations in production volumes, realized oil and natural gas pricing and the related impact on royalties. Revenue, cash flow and net earnings in 2013 were higher than the prior quarters in 2012 and 2011, mainly due to the Spartan acquisition on January 25, 2013, increased commodity prices and reduced operating costs.

## Critical Accounting Estimates

There have been no changes to the Company's critical accounting policies and estimates as of the period ended in the financial statements.

## 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.

## **Disclosure Controls and Procedures**

Disclosure controls and procedures have been designed to ensure the information required to be disclosed by the Company is accumulated and communicated to the Company's Management, as appropriate, to allow timely decisions regarding required disclosures. The Company's Chief Executive Officer (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 Disclosure Controls and Procedures (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 as of the end of the period covered by the interim filing 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 control over financial reporting are effective for the foregoing purpose.

No changes were made to the Company's internal controls over financial reporting during the end of the period covered by the interim filing that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

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.

## **Financial Reporting Update**

As of January 1, 2013, the Company adopted several new IFRS standards and amendments in accordance with the transitional provisions of each standard. A brief description of each new standard and its impact on the Company's financial statements follows below:

IAS 1 "Presentation of Financial Statements" which requires companies to group together items within other comprehensive income that may be reclassified to the net earnings section of the statement of comprehensive income. The retrospective adoption of this standard did not have any impact on the Company's financial statements.

#### IFRS 10 “Consolidated Financial Statements”

Replaces Standing Interpretations Committee 12, “Consolidation - Special Purpose Entities” and the consolidation requirements of IAS 27 “Consolidated and Separate Financial Statements”. The new standard replaces the existing risk and rewards based approaches and establish control as the determining factor when determining whether an interest in another entity should be included in the consolidated financial statements. The adoption of this standard is not applicable to the Company’s financial statements.

#### IFRS 11 “Joint Arrangements”

Replaces IAS 31 “Interests in Joint Ventures” along with amending IAS 28 “Investment in Associates”. IFRS 11, “Joint Arrangements,” requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. The Company performed a review of its interest in other entities and did not identify any significant interests for which it shares joint control, as such, there is no impact as a result of this standard.

#### IFRS 12 “Disclosure of Interests in Other Entities”

Provides comprehensive disclosure requirements on interests in other entities, including joint arrangements, associates, and special purpose vehicles. The new disclosure requires information that will assist financial statement users in evaluating the nature, risks and financial effects of an entity’s interest in subsidiaries and joint arrangements. None of these disclosure requirements are applicable for the condensed financial statements, unless significant events and transactions in the period require that they are provided. Accordingly the Company has not made such disclosure.

#### IFRS 13 “Fair Value Measurement”

Provides a common definition of fair value within IFRS. The new standard provides measurement and disclosure guidance and applies when IFRS requires or permits the item to be measured at fair value, with limited exceptions. This standard does not determine when an item is measured at fair value and as such does not require new fair value measurements. There has been no change to the Company’s methodology for determining the fair value for its financial assets and liabilities, and as such, the application of IFRS 13 has not resulted in any adjustments to the fair value measurements carried out by the Company.

As of January 1, 2015, Bonterra will be required to adopt amendments to IFRS 9 “Financial Instruments.”

The result of the first phase of the IASB’s project to replace IAS 39, “Financial Instruments: Recognition and Measurement”. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. Bonterra does not expect a material impact as a result of this amendment.

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

## **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 condensed financial statements with management and has reported to the Board of Directors. The Board of Directors has approved the financial statements as presented in this interim report.

## CONDENSED STATEMENTS OF FINANCIAL POSITION

As at (unaudited) (\$ 000s)	Note	June 30, 2013	December 31, 2012
<b>Assets</b>			
<b>Current</b>			
Accounts receivable		28,777	19,158
Crude oil inventory		767	797
Prepaid expenses		2,701	1,635
Investments		3,794	4,136
		<b>36,039</b>	<b>25,726</b>
Investment in related party	3	941	910
Exploration and evaluation assets	5	8,554	1,982
Property, plant and equipment	6	821,053	341,452
Investment tax credit receivable		27,670	27,670
Deferred tax asset	8	-	22,193
Goodwill	4,7	92,810	-
		<b>987,067</b>	<b>419,933</b>
<b>Liabilities</b>			
<b>Current</b>			
Accounts payable and accrued liabilities		24,256	28,602
Risk management contract	14	1,607	-
Due to related parties	9	12,000	12,000
Subordinated promissory note	10	25,000	15,000
		<b>62,863</b>	<b>55,602</b>
Bank debt	11	179,379	166,808
Decommissioning liabilities		38,665	34,246
Deferred tax liability	8	57,586	-
		<b>338,493</b>	<b>256,656</b>
<b>Commitments and subsequent events</b>	16, 17		
<b>Shareholders' equity</b>			
Share capital	12	652,135	149,877
Contributed surplus		11,494	9,167
Accumulated other comprehensive income		1,951	1,620
Retained earnings (deficit)		(17,006)	2,613
		<b>648,574</b>	<b>163,277</b>
		<b>987,067</b>	<b>419,933</b>

See accompanying notes to these condensed financial statements.

**CONDENSED STATEMENTS OF COMPREHENSIVE INCOME**

For the periods ended June 30 (unaudited)

(\$ 000s, except \$ per share)	Note	Three Months		Six Months	
		2013	2012	2013	2012
<b>Revenue</b>					
Oil and gas sales, net of royalties	13	<b>67,617</b>	28,000	<b>127,280</b>	60,297
Loss on risk management contract	14	<b>(165)</b>	-	<b>(457)</b>	-
Other income	15	<b>415</b>	2,649	<b>618</b>	4,291
		<b>67,867</b>	30,649	<b>127,441</b>	64,588
<b>Expenses</b>					
Production costs		<b>13,144</b>	8,767	<b>26,970</b>	17,823
Office and administration		<b>465</b>	455	<b>2,560</b>	766
Employee compensation		<b>1,494</b>	1,102	<b>2,881</b>	2,164
Finance costs		<b>2,408</b>	1,421	<b>4,434</b>	2,519
Share-based payments	12	<b>1,135</b>	865	<b>2,327</b>	1,937
Depletion and depreciation	6	<b>28,582</b>	7,298	<b>48,143</b>	14,926
Exploration and evaluation expenses	5	-	-	<b>276</b>	-
		<b>47,228</b>	19,908	<b>87,591</b>	40,135
<b>Earnings before income taxes</b>		<b>20,639</b>	10,741	<b>39,850</b>	24,453
<b>Deferred income taxes</b>		<b>5,520</b>	1,540	<b>12,036</b>	5,070
<b>Net earnings for the period</b>		<b>15,119</b>	9,201	<b>27,814</b>	19,383
<b>Other comprehensive income (loss)</b>					
Unrealized gain (loss) on investments		<b>138</b>	(536)	<b>656</b>	(176)
Deferred taxes on unrealized loss (gain) on investments		<b>(17)</b>	67	<b>(82)</b>	22
Realized gain on investments transferred to net earnings		<b>(163)</b>	-	<b>(278)</b>	(445)
Deferred taxes on realized gain on investments transferred to net earnings		<b>21</b>	-	<b>35</b>	56
<b>Other comprehensive gain (loss) for the period</b>		<b>(21)</b>	(469)	<b>331</b>	(543)
<b>Total comprehensive income for the period</b>		<b>15,098</b>	8,732	<b>28,145</b>	18,840
<b>Net earnings per share - basic</b>	12	<b>0.49</b>	0.47	<b>0.95</b>	0.98
<b>Net earnings per share – diluted</b>	12	<b>0.49</b>	0.46	<b>0.95</b>	0.98
<b>Comprehensive income per share - basic</b>	12	<b>0.49</b>	0.44	<b>0.96</b>	0.96
<b>Comprehensive income per share – diluted</b>	12	<b>0.49</b>	0.44	<b>0.96</b>	0.95

See accompanying notes to these condensed financial statements.

## CONDENSED STATEMENTS OF CASH FLOW

For the periods ended June 30 (unaudited)		Three Months		Six Months	
(\$ 000s)	Note	2013	2012	2013	2012
<b>Operating activities</b>					
Earnings before income taxes		20,639	10,741	39,850	24,453
Items not affecting cash					
Share-based payments		1,135	865	2,327	1,937
Depletion and depreciation		28,582	7,298	48,143	14,926
Exploration and evaluation expenses		-	-	276	-
Unrealized loss on risk management contract		(270)	-	(253)	-
Unwinding of the fair value of decommissioning liabilities		278	217	520	435
Gain on sale of property		(212)	(2,500)	(212)	(3,609)
Gain on sale of investments		(163)	-	(278)	(445)
Investment income		(32)	(66)	(67)	(72)
Interest expense		2,129	1,204	3,913	2,084
Change in non-cash working capital					
Change in accounts receivable		(354)	1,889	(3,131)	4,987
Change in crude oil inventory		54	217	132	377
Change in prepaid expenses		(362)	(1,024)	(150)	(910)
Change in accounts payable and accrued liabilities		(7,781)	(2,780)	(4,739)	(5,497)
Decommissioning expenditures		(69)	(130)	(247)	(157)
Interest paid		(2,129)	(1,204)	(3,913)	(2,084)
<b>Cash provided by operating activities</b>		<b>41,445</b>	<b>14,727</b>	<b>82,171</b>	<b>36,425</b>
<b>Financing activities</b>					
Increase (decrease) in bank debt		(10,130)	39,204	12,571	44,831
Subordinated promissory note		10,000	-	10,000	-
Stock option proceeds		-	1,107	-	4,627
Dividends		(25,721)	(15,420)	(47,433)	(30,752)
<b>Cash provided by (used in) financing activities</b>		<b>(25,851)</b>	<b>24,891</b>	<b>(24,862)</b>	<b>18,706</b>
<b>Investing activities</b>					
Investment income received		32	66	67	72
Exploration and evaluation expenditures		(13)	(51)	(13)	(57)
Property, plant and equipment expenditures		(12,124)	(10,629)	(61,630)	(33,145)
Proceeds on sale of property		2,406	2,500	2,406	3,609
Purchase of investments		-	-	-	(185)
Proceeds on sale of investments		577	-	968	1,231
Acquisition		-	(17,108)	-	(17,108)
Cash acquired on acquisition	4	-	-	10,000	-
Change in non-cash working capital					
Change in accounts payable and accrued liabilities		(12,861)	(14,404)	(13,204)	(9,292)
Change in accounts receivable		6,389	8	4,097	(256)
<b>Cash used in investing activities</b>		<b>(15,594)</b>	<b>(39,618)</b>	<b>(57,309)</b>	<b>(55,131)</b>
<b>Net cash inflow</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Cash, beginning of period		-	-	-	-

See accompanying notes to these condensed financial statements.

## CONDENSED STATEMENTS OF CHANGES IN EQUITY

For the periods ended (unaudited)

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

	Number of shares outstanding (Note 12)	Share capital (Note 12)	Contributed surplus <sup>(1)</sup>	Accumulated other comprehensive income <sup>(2)</sup>	Retained earnings (deficit)	Total shareholders' equity
<b>January 1, 2012</b>	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)
<b>June 30, 2012</b>	19,797,041	147,490	6,943	2,119	19,740	176,292
Share-based payments			2,304			2,304
Exercise of options	112,500	2,307				2,307
Transfer to share capital on exercise of options		80	(80)			-
Comprehensive income (loss)				(499)	13,828	13,329
Dividends					(30,955)	(30,955)
<b>December 31, 2012</b>	19,909,541	149,877	9,167	1,620	2,613	163,277
Share-based payments			2,327			2,327
Acquisition (Note 4)	10,711,405	502,258				502,258
Comprehensive income				331	27,814	28,145
Dividends					(47,433)	(47,433)
<b>June 30, 2013</b>	30,620,946	652,135	11,494	1,951	(17,006)	648,574

<sup>(1)</sup> Contributed surplus comprises of share-based payments.

<sup>(2)</sup> 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, 2013 and December 31, 2012 and for the three and six months ended June 30, 2013 and 2012 (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, 1015-4<sup>th</sup> 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 financial statements were authorized for issue by the Company's Board of Directors on August 13, 2013.

### 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 2012 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 2012 audited annual financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

#### b) Recent Accounting Pronouncements

As of January 1, 2013, the Company adopted several new IFRS standards and amendments in accordance with the transitional provisions of each standard. A brief description of each new standard and its impact on the Company's financial statements follows below:

IAS 1 "Presentation of Financial Statements" which requires companies to group together items within other comprehensive income that may be reclassified to the net earnings section of the statement of comprehensive income. The retrospective adoption of this standard did not have any impact on the Company's financial statements.

#### IFRS 10 "Consolidated Financial Statements"

Replaces Standing Interpretations Committee 12, "Consolidation - Special Purpose Entities" and the consolidation requirements of IAS 27 "Consolidated and Separate Financial Statements". The new standard replaces the existing risk and rewards based approaches and establish control as the determining factor when determining whether an interest in another entity should be included in the consolidated financial statements. The adoption of this standard is not applicable to the Company's financial statements.

#### IFRS 11 "Joint Arrangements"

Replaces IAS 31 "Interests in Joint Ventures" along with amending IAS 28 "Investment in Associates". IFRS 11, "Joint Arrangements," requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for



interests in joint ventures. The Company performed a review of its interest in other entities and did not identify any significant interests for which it shares joint control, as such, there is no impact as a result of this standard.

#### IFRS 12 "Disclosure of Interests in Other Entities"

Provides comprehensive disclosure requirements on interests in other entities, including joint arrangements, associates, and special purpose vehicles. The new disclosure requires information that will assist financial statement users in evaluating the nature, risks and financial effects of an entity's interest in subsidiaries and joint arrangements. None of these disclosure requirements are applicable for the condensed financial statements, unless significant events and transactions in the period require that they are provided. Accordingly the Company has not made such disclosure.

#### IFRS 13 "Fair Value Measurement"

Provides a common definition of fair value within IFRS. The new standard provides measurement and disclosure guidance and applies when IFRS requires or permits the item to be measured at fair value, with limited exceptions. This standard does not determine when an item is measured at fair value and as such does not require new fair value measurements. There has been no change to the Company's methodology for determining the fair value for its financial assets and liabilities, and as such, the application of IFRS 13 has not resulted in any adjustments to the fair value measurements carried out by the Company.

### **c) Recent Accounting Pronouncements**

As of January 1, 2015, Bonterra will be required to adopt amendments to IFRS 9 "Financial Instruments." The result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. Bonterra does not expect a material impact as a result of this amendment.

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

The investment consists of 1,034,523 (December 31, 2012 – 1,034,523) common shares in Pine Cliff Energy Ltd. (Pine Cliff), a company with some common directors and some common management with Bonterra. The investment in Pine Cliff represents less than 0.7 percent ownership in the outstanding common shares of Pine Cliff and is recorded at fair market value. The common shares of Pine Cliff trade on the TSX Venture Exchange under the symbol PNE.

In addition, Geomark Exploration Ltd. (a wholly owned subsidiary of Pine Cliff) owns 204,633 (December 31, 2012 – 204,633) common shares in Bonterra.

### **4. ACQUISITION**

On January 25, 2013, Bonterra acquired 100 percent of the issued and outstanding common shares of Spartan Oil Corp. (Spartan) pursuant to an arrangement agreement (Spartan Transaction). Spartan was a public oil and gas company with properties in Alberta and Saskatchewan. Consideration for Spartan shares was 0.1169 voting common shares of Bonterra, which amounted to the issuance of 10,711,405 Bonterra shares valued at \$502,258,000, using the closing share price of \$46.89 per share on the date of the Spartan Transaction. The exchange ratio for the transaction represents a deemed price of \$5.03 per Spartan Share. The Spartan assets contributed revenue (primarily oil and gas sales, net of royalties) of \$47,596,000 and operating and administrative expenses of \$4,982,000 for the period from January 25, 2013 to June 30, 2013. If the acquisition had occurred on January 1, 2013, total revenue (primarily oil and gas sales, net of royalties) would have been approximately \$55,171,000 and operating and administrative expenses would have been \$7,779,000 for the six month period ended June 30, 2013. The Spartan Transaction was accounted for as a business combination with Bonterra identified as the acquirer.

The purchase price allocation using the acquisition method was allocated to the assets acquired and the liabilities assumed as follows:

Net assets acquired:	(\$ 000s)
Exploration and evaluation assets	8,830
Property, plant and equipment	471,139
Goodwill	92,810
Working capital	
Cash	10,000
Accounts receivable	10,585
Prepaid expense	915
Accounts payable and accrued liabilities	(13,597)
Risk management contract	(1,859)
Decommissioning liabilities	(8,870)
Deferred tax liability	(67,695)
<b>Total</b>	<b>502,258</b>
Consideration:	
Bonterra shares (10,711,405 shares at \$46.89)	502,258
<b>Total purchase price</b>	<b>502,258</b>

On March 1, 2013, Spartan was amalgamated with Bonterra.

## 5. EXPLORATION AND EVALUATION ASSETS

(\$ 000s)

<b>Cost and carrying amount</b>	
Balance at December 31, 2012	1,982
Acquisition	8,830
Additions	13
Disposition (Note 6)	(1,373)
Transfers to property, plant and equipment	(622)
Expiry of exploration and evaluation assets	(276)
<b>Balance at June 30, 2013</b>	<b>8,554</b>

## 6. PROPERTY, PLANT AND EQUIPMENT

Cost (\$ 000s)	Oil and gas properties	Production facilities	Furniture, fixtures & other equipment	Total property, plant & equipment
<b>Balance at December 31, 2012</b>	<b>427,241</b>	<b>94,902</b>	<b>1,661</b>	<b>523,804</b>
Additions	48,690	12,929	11	61,630
Adjustment to decommissioning liabilities	(4,590)	-	-	(4,590)
Disposals	(811)	(205)	-	(1,016)
Transfers from exploration and evaluation assets	622	-	-	622
Acquisition	378,685	92,454	-	471,139
<b>Balance at June 30, 2013</b>	<b>849,837</b>	<b>200,080</b>	<b>1,672</b>	<b>1,051,589</b>

Accumulated Depletion and Depreciation (\$ 000s)	Oil and gas properties	Production facilities	Furniture, fixtures & other equipment	Total property, plant & equipment
<b>Balance at December 31, 2012</b>	<b>(143,607)</b>	<b>(37,521)</b>	<b>(1,224)</b>	<b>(182,352)</b>
Depletion and depreciation	(40,030)	(8,072)	(41)	(48,143)
Disposal and other	(50)	9	-	(41)
<b>Balance at June 30, 2013</b>	<b>(183,687)</b>	<b>(45,584)</b>	<b>(1,265)</b>	<b>(230,536)</b>

### Carrying amounts as at: (\$ 000s)

December 31, 2012	283,634	57,381	437	341,452
<b>June 30, 2013</b>	<b>666,150</b>	<b>154,496</b>	<b>407</b>	<b>821,053</b>

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 three and six months ended June 30, 2013 and 2012.

In June 2013, the Company sold a portion of its non-core Southeast Saskatchewan properties for cash proceeds of \$2,406,000. At the time of disposition, the Company had a carrying value of \$1,373,000 for exploration and evaluation expenditures, \$954,000 for property, plant and equipment and \$133,000 for decommissioning liabilities resulting in a gain on sale of \$212,000.

## 7. GOODWILL

Goodwill acquired through business combinations has been allocated to the cash generating unit (CGU) or groups of CGU's that are expected to benefit from the synergies of the acquisition. The amount recorded as goodwill related to the Spartan transaction has all been allocated to its primary CGU, the Pembina and Willesden Green Cardium assets in Alberta, Canada. There were no impairment losses recorded in the statement of comprehensive income for the three and six months ended June 30, 2013 and 2012.

## 8. 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	76,685
Eligible capital expenditures	7	5,735
Share issue costs	20	5,764
Canadian oil and gas property expenditures	10	72,240
Canadian development expenditures	30	229,834
Canadian exploration expenditures	100	11,409
Income tax losses carried forward <sup>(1)</sup>	100	189,362
		591,029

<sup>(1)</sup> Federal income tax losses carried forward expire in the following years; 2025 - \$14,493,000, 2026 - \$117,189,000, 2027 - \$35,248,000, 2028 - \$13,131,000, 2031 - \$9,301,000.

The Company has \$27,670,000 (December 31, 2011 - \$27,670,000) remaining of investment tax credits that expire in the following years; 2018 - \$3,469,000, 2019 - \$3,059,000, 2020 - \$4,667,000, 2021 - \$3,909,000, 2022 - \$3,155,000, 2023 - \$1,955,000, 2024 - \$2,257,000, 2025 - \$2,405,000, 2026 - \$2,009,000, 2027 - \$745,000.

The Company also has \$134,938,000 (December 31, 2012 - \$135,502,000) of capital loss carry forwards which can only be claimed against taxable capital gains.

## 9. TRANSACTIONS WITH RELATED PARTIES

As at June 30, 2013, the Company's CEO, Chairman of the Board and major shareholder has loaned the Company \$12,000,000 (December 31, 2012 - \$12,000,000). The loan bears interest at Canadian chartered bank prime less 5/8<sup>th</sup> 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 was \$141,000 (June 30, 2012 - \$142,000). 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.

The Company received a management fee of \$30,000 plus administrative costs for the six months ended June 30, 2013 (June 30, 2012 - \$165,000 plus administrative costs from Pine Cliff and Geomark) for management services and office administration from Pine Cliff. The management fee has been included in other income. As at June 30, 2013, the Company had an account receivable from Pine Cliff of \$113,000 (December 31, 2012 - \$45,000).

## 10. SUBORDINATED PROMISSORY NOTE

As at June 30, 2013, Bonterra has borrowed \$25,000,000 (December 31, 2012 - \$15,000,000) from a private investor, in exchange for a Subordinated Promissory Note. 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 \$25,000,000 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 for the first six months was \$295,000 (June 30, 2012 - \$224,000).

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.

## 11. BANK DEBT

As at June 30, 2013, the Company has bank facilities consisting of \$220,000,000 (December 31, 2012 - \$160,000,000) syndicated revolving credit facility and a \$30,000,000 (December 31, 2012 - \$20,000,000) non-syndicated revolving credit facility, for total facilities of \$250,000,000. Amounts drawn under both credit facilities at June 30, 2013 were \$179,379,000 (December 31, 2012 - \$166,808,000). Amounts borrowed under the credit facilities at June 30, 2013 bear interest at a floating rate based on the applicable Canadian prime rate, which is

presently three percent 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 facilities provided that the loan is revolving to April 24, 2014 and with a maturity date of April 25, 2015 and is subject to annual review. The revolving credit facilities have 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 \$700,000 were issued as at June 30, 2013 (December 31, 2012 - \$400,000). Security for credit facilities consists of various and floating demand debentures totaling \$400,000,000 (December 31, 2012 - \$300,000,000) over all of the Company's assets and a 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 \$250,000,000 in consolidated debt (includes working capital but excludes amounts due to related parties and subordinated promissory note).
- Dividends paid in the current quarter shall not exceed 80 percent of the average 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 all net proceeds of dispositions included in cash used in investing activities. At June 30, 2013, the Company is in compliance with all covenants.

## 12. SHAREHOLDERS' EQUITY

Authorized

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

	Number	Amount (\$ 000s)
Issued and fully paid – common shares		
Balance, December 31, 2012	19,909,541	149,877
Acquisition	10,711,405	502,258
Balance, June 30, 2013	30,620,946	652,135

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	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Basic shares outstanding	30,620,946	19,768,307	29,200,649	19,715,379
Dilutive effect of share options <sup>(1)</sup>	87,822	63,759	72,948	72,989
Diluted shares outstanding	30,708,768	19,832,066	29,273,597	19,788,368

(1) The Company did not include 1,085,000 share options for the three months ended June 30, 2013 (June 30, 2012 – 1,102,000) and 1,131,000 share options for the six months ended June 30, 2013 (June 30, 2012 – 1,086,000) in the dilutive effect of share options calculation as these share options were anti-dilutive.

For the six months ended June 30, 2013, the Company declared and paid dividends of \$47,433,000 (\$1.64 per share) (June 30, 2012 - \$30,752,000 (\$1.56 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 3,062,095 (December 31, 2012 – 1,990,954) common shares.

The exercise price of each option granted cannot be lower than the market price of the common shares on the date of grant and the option's maximum term is three years.

A summary of the status of the Company's stock option plan as of June 30, 2013, and changes during the year ended on those dates is presented below:

	Number of options	Weighted average exercise price
Balance, December 31, 2012	1,902,000	\$49.99
Options granted	255,000	48.04
Options forfeited	(31,000)	51.05
Balance, June 30, 2013	2,126,000	\$49.74

The following table summarizes information about options outstanding at June 30, 2013:

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number outstanding at June 30, 2013	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at June 30, 2013	Weighted-average exercise price
\$ 40.00 – \$ 49.50	1,100,000	1.5 years	\$45.40	46,000	\$43.29
50.00 – 59.00	1,026,000	2.2 years	54.39	515,500	57.57
\$ 40.00 – \$ 59.00	2,126,000	1.8 years	\$49.74	561,500	\$56.41

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 2013, the Company granted 255,000 stock options with an estimated fair value of \$1,106,000 or \$4.34 per option using the Black-Scholes option pricing model with the following key assumptions:

	June 30, 2013
Weighted-average risk free interest rate (%) <sup>(1)</sup>	1.15
Expected life (years)	1.87
Weighted-average volatility (%) <sup>(2)</sup>	27.26
Forfeiture rate (%)	-
Weighted average dividend yield (%)	7.00

(1) Risk-free interest rate is based on the weighted average Government of Canada benchmark bond yields for one, two, and three 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.

### 13. OIL AND GAS SALES, NET OF ROYALTIES

(\$ 000s)	Three months		Six months	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Oil and gas sales	79,344	31,049	145,812	67,942
Less:				
Crown royalties	(4,903)	(2,203)	(8,887)	(5,349)
Freehold, gross overriding royalties and other	(6,824)	(846)	(9,645)	(2,296)
Oil and gas sales, net of royalties	67,617	28,000	127,280	60,297

#### 14. RISK MANAGEMENT CONTRACT

(\$ 000s)	Three months		Six months	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Risk management contract				
Realized gain (loss)	(435)	-	(710)	-
Unrealized gain	270	-	253	-
	(165)	-	(457)	-

With the Spartan transaction, the Company inherited a derivative financial instrument. The financial derivative is outstanding for the period January 1, 2013, to December 31, 2013 for a total 273,750 barrels of oil (approximately 750 barrels of oil per day) at a fixed price of Cdn \$90.00 per barrel. It is estimated that a 10 percent change in the forward crude oil prices would result in an \$889,000 change in net earnings for the six month period ended June 30, 2013.

#### 15. OTHER INCOME

(\$ 000s)	Three months		Six months	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Investment income	32	66	67	72
Administrative income	8	83	61	165
Realized gain on sale of property	212	2,500	212	3,609
Realized gain on investments	163	-	278	445
Other income	415	2,649	618	4,291

#### 16. COMMITMENTS

The Company has entered into leases for buildings and office equipment. These leases have an average life of 4.7 years. There are no restrictions placed upon the lessee by entering into these leases. Future minimum lease payments under non-cancellable operating leases as at June 30, 2013 are as follows:

(\$ 000s)	
Within one year	1,335
After one year but not more than five years	4,696
Total	6,031

#### 17. SUBSEQUENT EVENTS

##### I) SHARE ISSUANCE

On July 2, 2013, the Company announced the closing of a bought deal financing of 553,725 common shares at a price of \$49.85 per common share, for aggregate gross proceeds of \$27,603,000. The Company incurred issue costs of approximately \$1,500,000 in respect of the offering. The funds will be used to temporarily reduce outstanding bank debt.

## II) DIVIDENDS

Subsequent to June 30, 2013, the Company has declared the following dividends:

Date declared	Record date	\$ per share	Date payable
July 2, 2013	July 15, 2013	0.28	July 31, 2013
August 1, 2013	August 15, 2013	0.28	August 30, 2013



## Corporate Information

### **BOARD OF DIRECTORS**

G. J. Drummond  
G. F. Fink  
R. M. Jarock  
C. R. Jonsson  
R. A. Tourigny  
F.W. Woodward

### **OFFICERS**

G. F. Fink, CEO and Chairman of the Board  
A. Neumann, Chief Operating Officer  
R. D. Thompson, CFO and Corporate Secretary  
B. A. Curtis, Vice President, Business Development

### **REGISTRAR AND TRANSFER AGENT**

Olympia Trust Company, Calgary, Alberta

### **AUDITORS**

Deloitte 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  
TD Securities, Calgary, Alberta  
J.P. Morgan, Calgary, Alberta

### **HEAD OFFICE**

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### **WEBSITE**

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