



For the Six
Months ended
June 30, 2014

TSX: **BNE**
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**BONTERRA ENERGY REPORTS SECOND QUARTER 2014
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, 2014	June 30, 2013	June 30, 2014	June 30, 2013 ⁽¹⁾	
FINANCIAL					
Revenue – realized oil and gas sales	99,274	79,344	181,795	145,812	
Funds flow ⁽¹⁾⁽⁴⁾	65,620	50,566	120,034	91,341	
Per share – basic	2.06	1.65	3.77	3.13	
Per share – diluted	2.04	1.65	3.74	3.12	
Payout ratio	42%	51%	46%	52%	
Cash flow from operations	57,089	41,445	106,183	82,171	
Per share – basic	1.79	1.35	3.33	2.81	
Per share – diluted	1.78	1.35	3.31	2.81	
Payout ratio	49%	62%	52%	58%	
Cash dividends per share	0.87	0.84	1.74	1.64	
Net earnings	27,614	15,119	50,655	27,814	
Per share – basic	0.87	0.49	1.59	0.95	
Per share – diluted	0.86	0.49	1.58	0.95	
Capital expenditures and acquisitions, net of dispositions	38,466	9,731	92,702	59,237 ⁽²⁾	
Total assets			1,066,145	987,067	
Working capital deficiency			36,399	26,824	
Long-term debt			151,145	179,379	
Shareholders' equity			699,284	648,574	
OPERATIONS					
Oil	-barrels per day	9,109	8,414	8,342	7,939
	-average price (\$ per barrel)	102.36	89.38	99.73	86.96
NGLs	-barrels per day	775	782	748	757
	-average price (\$ per barrel)	53.50	44.64	60.36	49.02
Natural gas	-MCF per day	24,163	20,554	23,240	21,361
	-average price (\$ per MCF)	4.85	4.13	5.48	3.66
Total barrels of oil equivalent per day (BOE)⁽³⁾		13,911	12,621	12,964	12,256

⁽¹⁾ 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.

⁽²⁾ 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.

⁽³⁾ 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.

⁽⁴⁾ 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, 2014. The results for both of these periods have been very good in many categories, including production volumes, oil and gas revenues, funds flow, net earnings and returns for shareholders. The Company has maintained its focus on providing investors with continued growth on a per share basis, a sustainable pace of development and consistent income from dividends and share price appreciation.

Financial and Operational Highlights

Production:

- Guidance range for 2014 of 12,400 to 12,700 barrels of oil equivalent (BOE) per day
- Three months ended June 30, 2014 – 13,911 BOE per day
- Six months ended June 30, 2014 – 12,964 BOE per day

Funds Flow:

- Guidance for 2014 - \$200 million
- Three months ended June 30, 2014 - \$65.6 million
- Six months ended June 30, 2014 - \$120 million

Net Earnings:

- Three months ended June 30, 2014 – \$27.6 million; comparable three month period for 2013 - \$15.1 million
- Six months ended June 30, 2014 – \$50.7 million; comparable six month period for 2013 - \$27.8 million

Realized Commodity Prices:

	<u>June 30, 2014</u>	<u>Guidance</u>	<u>Actual</u>
Oil	Three months	\$85.39 per bbl	\$102.36 per bbl
	Six months	\$85.39 per bbl	\$99.73 per bbl
NGL's	Three months	\$50.72 per bbl	\$53.50 per bbl
	Six months	\$50.72 per bbl	\$60.36 per bbl
Natural Gas	Three months	\$3.50 per mcf	\$4.85 per mcf
	Six months	\$3.50 per mcf	\$5.48 per mcf

Cash Netbacks:

- Guidance for 2014 - \$41.11 per BOE
- Three months ended June 30, 2014 - \$51.48 per BOE
- Six months ended June 30, 2014 - \$50.97 per BOE

Net debt (including working capital) to funds flow (trailing twelve months): 0.89 times to 1.0 as at June 30, 2014.

Operating Costs:

- Guidance for 2014 - \$13.00 per BOE
- Three months ended June 30, 2014 - \$13.98 per BOE
- Six months ended June 30, 2014 - \$13.94 per BOE

Additional funds from the exercise of stock options for the six months ended June 30, 2014: \$31.3 million

Outlook

Bonterra will continue to execute its capital program with approximately 70 percent of its drilling and completions activities focused in the Carnwood field and the other 30 percent in various operated and non-operated well locations in other areas of the Pembina Cardium field. Results from the wells that have commenced production in 2014 continue to be favorable and the Company is well positioned to carry this momentum into the remainder of 2014.

The Company has also commenced with its Carnwood water flood program. One of its horizontal wells in a four well pad in the Carnwood unit has been converted into a water injection well. Further studies are ongoing with regard to natural gas enhanced recovery whereby another four well pad will have one of its producing wells converted into a natural gas injector in the first quarter of 2015. The Company is optimistic with regard to production from horizontal well water flood pilots and new horizontal wells that have been drilled within existing water flooded areas. Recent production from new wells that have been drilled in these pressured areas has been encouraging.

From a longer term perspective Bonterra still has an inventory of approximately 14 years from its Cardium locations, subject to the length of the horizontal laterals and the average number of wells per section. This inventory of undrilled locations does not include any Belly River or Edmonton sands wells, any wells in deeper zones within the Pembina field, or any potential drilling on the Company's lands in Saskatchewan or British Columbia.

General

As previously announced, the Company recently increased its annual dividend from \$3.48 per share to \$3.60 per share and increased its 2014 capital expenditure budget from \$120 million to \$140 million. With these increases, the Company anticipates maintaining its net debt to cash flow ratio in the range of less than 1.5 times to 1.0. Some of this good fortune is obviously attributable to higher commodity prices, but some of it is also attributed to the efforts and success of operations by the Company's employees. The Board of Directors and shareholders again are thankful for this contribution.



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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following report dated August 13, 2014 is a review of the operations and current financial position for the six months ended June 30, 2014 for Bonterra Energy Corp. (Bonterra or the Company) and should be read in conjunction with the unaudited condensed financial statements and the audited financial statements including the notes related thereto for the fiscal year ended December 31, 2013 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: "WTI" refers to West Texas Intermediate, a grade of light sweet crude oil used as benchmark pricing in the United States; "MSW Stream Index" refers to the mixed sweet blend that is the benchmark price for conventionally produced light sweet crude oil in Western Canada; "bbl" refers to barrel; "NGL" refers to Natural gas liquids; "MCF" refers to thousand cubic feet; "MMBTU" refers to million British Thermal Units; 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)	2014			2013		
	Q2	Q1	Q4	Q3	Q2	Q1 ⁽¹⁾
Financial						
Revenue – oil and gas sales	99,274	82,521	70,917	78,946	79,344	66,468
Cash flow from operations	57,089	49,094	47,772	43,953	41,445	40,726
Per share – basic	1.79	1.56	1.53	1.41	1.35	1.47
Per share – diluted	1.78	1.55	1.52	1.40	1.35	1.46
Payout ratio	49%	56%	56%	60%	62%	53%
Cash dividends per share	0.87	0.87	0.85	0.84	0.84	0.80
Net earnings	27,614	23,041	15,254	19,690	15,119	12,695
Per share – basic	0.87	0.73	0.50	0.63	0.49	0.46
Per share – diluted	0.86	0.73	0.49	0.63	0.49	0.46
Capital expenditures and acquisitions, net of dispositions	38,466	54,236	25,965	34,025	9,731	39,506 ⁽²⁾
Total assets	1,066,145	1,043,822	1,000,531	1,002,773	987,067	1,016,594
Working capital deficiency	36,399	62,488	35,895	43,681	26,824	31,519
Long-term debt	151,145	143,103	156,764	147,189	179,379	189,509
Shareholders' equity	699,284	678,224	667,641	671,528	648,574	658,062
Operations						
Oil (barrels per day)	9,109	7,567	7,964	7,310	8,414	7,459
NGLs (barrels per day)	775	721	691	772	782	732
Natural gas (MCF per day)	24,163	22,307	22,802	22,274	20,554	22,176
Total BOE per day	13,911	12,006	12,456	11,794	12,621	11,887

(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. Production includes 65 days for Spartan and 90 days for Bonterra.

(2) 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.

As at and for the periods ended (\$ 000s except \$ per share)	Q4	Q3	Q2	Q1
Financial				
Revenue – oil and gas sales	39,624	35,204	31,049	36,893
Cash flow from operations	21,460	16,440	14,727	21,698
Per share – basic	1.08	0.83	0.74	1.10
Per share – diluted	1.08	0.83	0.74	1.10
Payout ratio	72%	94%	105%	71%
Cash dividends per share	0.78	0.78	0.78	0.78
Net earnings	6,082	7,746	9,201	10,182
Per share – basic	0.31	0.39	0.47	0.52
Per share – diluted	0.31	0.39	0.46	0.51
Capital expenditures and acquisitions, net of disposals	24,069	27,360	25,288 ⁽³⁾	21,413
Total assets	419,933	412,812	393,772	371,757
Working capital deficiency	29,876	49,808	42,082	57,889
Long-term debt	166,808	128,779	114,747	75,543
Shareholders' equity	163,277	169,839	176,292	181,008
Operations				
Oil (barrels per day)	4,400	4,108	3,650	3,975
NGLs (barrels per day)	595	461	428	419
Natural gas (MCF per day)	16,009	12,583	11,753	12,260
Total BOE per day	7,663	6,666	6,037	6,438

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

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. The increases or decreases for Bonterra's realized price for oil and natural gas for each of the eight quarters is explained in detail in the following table.

	Q2-2014	Q1-2014	Q4-2013	Q3-2013	Q2-2013	Q1-2013	Q4 -2012	Q3 -2012
Crude oil								
WTI (U.S.\$/bbl)	102.99	98.68	97.44	105.82	94.22	94.37	88.18	92.22
WTI to MSW Stream Index								
Differential (U.S.\$/bbl) ⁽¹⁾	(6.14)	(8.25)	(14.93)	(4.72)	(3.67)	(6.95)	(3.32)	(7.21)
Foreign exchange								
Cdn\$/U.S.\$	1.0905	1.1035	1.0498	1.0385	1.0234	1.0089	0.9913	0.9948
Bonterra average realized price (Cdn\$/bbl)	102.36	96.53	80.88	103.30	89.38	84.20	78.58	80.54
Natural gas								
AECO (Cdn\$/mcf)	4.67	5.69	3.52	2.43	3.52	3.18	3.20	2.31
Bonterra average realized price (Cdn\$/mcf)	4.85	6.16	3.85	2.71	4.13	3.21	3.43	2.41

⁽¹⁾ This differential accounts for the major difference between WTI and Bonterra's average realized price (before quality adjustments and foreign exchange).

The overall volatility in Bonterra's average realized commodity pricing is dependent on numerous events, some of which are:

- Increased North American production and whether there is sufficient take-away capacity leading to increasing or decreasing oil inventory drawdowns;
- Weather dependence; the 2013/2014 cold winter has been somewhat offset by fewer heating days in North America for the summer months. At the present time, natural gas storage levels are lower than any other time during the past five years;
- Timing of plant and refinery turnarounds;
- Geo-political events in the middle east countries that effect worldwide crude oil production; and
- The reduced value of the Canadian dollar compared to the U.S. dollar continues to positively affect Bonterra's realized prices.

It is difficult to predict future pricing, but the Company expects oil and gas prices to remain volatile for the remainder of 2014 and 2015.

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 2014⁽¹⁾

Impact on cash flow	Change (\$)	\$000s	\$ per share ⁽²⁾
Realized crude oil price (\$/bbl)	1.00	2,595	0.08
Realized natural gas price (\$/mcf)	0.10	749	0.02
Canadian \$/ U.S. \$ exchange rate	0.01	2,206	0.07

⁽¹⁾ This analysis uses current royalty rates, annualized estimated average production of 12,500 BOE per day and no changes in working capital

⁽²⁾ Based on annualized basic weighted average shares outstanding of 31,865,760

Business Overview, Strategy and Key Performance Drivers

The Company drilled 9 (8.9 net) wells in the second quarter of 2014 (Q2 2013 – nil wells), and completed, equipped and tied-in six of these wells. The remaining three wells were placed on production early in the third quarter. Typically, capital activities are not possible in the second quarter because of spring break-up which temporarily prevents access to potential drilling sites. The drill locations that were selected in the Carnwood area for Q2 2014 are situated where existing road and facility infrastructure are in place, which allowed the Company to add new production during this usual period of capital development inactivity. The Company plans to take advantage of developing the Carnwood area by employing one drilling rig continuously through the balance of 2014 and 2015. Committing to continuous use of one drilling rig for a two year period will result in reducing rig moving costs and increasing annual production from wells that are tied-in earlier in the year. Bonterra has increased its capital budget for 2014 from \$120,000,000 to \$140,000,000 primarily to maintain this strategy. The Company expects the additional \$20,000,000 will be spent on drilling 10 new wells (9.6 net) in the fourth quarter of 2014 (to be completed and placed on production early in the first quarter of 2015), infrastructure costs, and for additional non-operated wells scheduled to be drilled late in 2014. The increase of \$20,000,000 of capital expenditures will have little or no impact on 2014 production or cash flow.

With the results of the current 2014 drilling program, the Company averaged 12,964 BOE per day for the first six months of the year and is on track to reach its annual average production guidance of 12,400 to 12,700 BOE per day.

Bonterra spent \$94,717,000 on its capital program, representing approximately 68 percent of the Company's revised capital program for 2014, primarily on the drilling of 24 gross (23.8 net) wells. Currently, 45 gross (43.9 net) operated wells and 19 gross (4.7 net) non-operated horizontal wells are planned for 2014, of which 35 gross

(34.6 net) wells will be drilled in the Carnwood area. Remaining capital will be directed to drilling and completing other wells within Bonterra's Cardium land base, and to facilities and pipeline costs.

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

	Three months ended						Six months ended			
	June 30, 2014		March 31, 2014		June 30, 2013		June 30, 2014		June 30, 2013	
	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾	Gross ⁽¹⁾	Net ⁽²⁾
Crude oil horizontal-operated	9	8.9	15	14.9	-	-	24	23.8	15	14.8
Crude oil horizontal-non-operated	1	0.1	8	2.3	-	-	9	2.4	2	0.3
Total	10	9.0	23	17.2	-	-	33	26.2	17	15.1
Success rate	100%		100%		100%		100%		100%	

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

⁽²⁾ "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 2014, the Company placed four gross (3.9 net) wells on production that were drilled in the later part of 2013, drilled 24 gross (23.8 net) wells, of which 21 gross (20.8 net) were placed on production. The remaining three wells drilled were placed on production early in Q3. One additional gross (0.1 net) non-operated well was also drilled and placed on production in the second quarter.

Production

	Three months ended			Six Months ended	
	June 30, 2014	March 31, 2014	June 30, 2013	June 30, 2014 ⁽¹⁾	June 30, 2013
Crude oil (barrels per day)	9,109	7,567	8,414	8,342	7,939
NGLs (barrels per day)	775	721	782	748	757
Natural gas (MCF per day)	24,163	22,307	20,554	23,240	21,361
Average BOE per day	13,911	12,006	12,621	12,964	12,256

⁽¹⁾ In the first half of 2013, average daily production included 181 days of Bonterra production and 157 days of Spartan production.

Production volumes during the first six months increased to 12,964 BOE per day compared to 12,256 BOE per day during the same period in 2013, primarily due to multi well pad drilling ("pad development") which reduced the number of drilling days and allowed more wells to come on production sooner. In addition, the Company was able to drill and tie-in new production in Q2 2014. Quarter over quarter, production volumes increased from 12,006 BOE per day to 13,911 BOE per day, mostly due to cold weather in Q1 which resulted in 10 of the 15 wells drilled being tied in late in the first quarter.

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, 2014	March 31, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Production volumes (BOE)	1,265,910	1,080,575	1,148,535	2,346,485	2,218,333
Gross production revenue ⁽¹⁾	\$78.42	\$76.37	\$69.08	\$77.48	\$65.73
Royalties	(9.21)	(8.76)	(10.21)	(9.00)	(8.35)
Field operating costs	(13.98)	(13.90)	(11.44)	(13.94)	(12.16)
Field netback	\$55.24	\$53.71	\$47.43	\$54.53	\$45.22
General and administrative	(2.63)	(2.28)	(1.71)	(2.47)	(2.45)
Interest and other	(1.12)	(1.06)	(2.20)	(1.09)	(2.03)
Cash netback	\$51.48	\$50.37	\$43.52	\$50.97	\$40.74

⁽¹⁾ For the first six months of 2014 the WTI was \$100.84 (U.S. \$/bbl) compared to \$90.20 (U.S. \$/bbl) for the first six months of 2013

Cash netbacks have increased for the first six months of 2014 compared to 2013 primarily due to higher production volumes and prices, which were partially offset by higher operating costs. Quarter over quarter cash netbacks increased due to higher production volumes and higher commodity prices.

Oil and Gas Sales

(\$ 000s)	Three months ended			Six Months ended	
	June 30, 2014	March 31, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Revenue – oil and gas sales	99,274	82,521	79,344	181,795	145,812
Average Realized Prices (\$):					
Crude oil (per barrel)	102.36	96.53	89.38	99.73	86.96
NGLs (per barrel)	53.50	67.81	44.64	60.36	49.02
Natural gas (per MCF)	4.85	6.16	4.13	5.48	3.66
Average (per BOE)	78.42	76.37	69.08	77.48	65.73

Revenue from oil and gas sales increased by \$35,983,000 in the first six months 2014 or 25 percent compared to 2013. This increase was primarily due to higher commodity prices and production volumes.

The quarter over quarter increase in oil and gas revenues of 20 percent or \$16,753,000 was due to increased oil prices and higher production volumes, which was partially offset by a decrease in prices received for natural gas and NGLs.

The Company's product split on a revenue basis for 2014 is approximately 87 percent weighted towards crude oil and NGLs. This ratio will likely remain similar or increase as the Company continues to develop its mainly oil Cardium properties.

Royalties

(\$ 000s)	Three months ended			Six Months ended	
	June 30, 2014	March 31, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Crown royalties	7,480	5,233	4,903	12,713	8,887
Freehold, gross overriding and other royalties	4,177	4,233	6,824	8,410	9,645
Total royalties	11,657	9,466	11,727	21,123	18,532
Crown royalties - percentage of revenue	7.5	6.3	6.2	7.0	6.1
Freehold, gross overriding and other royalties - percentage of revenue	4.2	5.1	8.6	4.6	6.6
Royalties – percentage of revenue	11.7	11.4	14.8	11.6	12.7
Royalties \$ per BOE	9.21	8.76	10.21	9.00	8.35

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 7.0 percent for the first six months of 2014 compared to 6.1 percent for the comparable period in 2013. The crown royalty rate increase was primarily due to more wells that have met accumulated production thresholds and are no longer eligible for the initial 5.0 percent crown royalty rate. Increased production volumes and higher oil prices are also responsible for the increased crown royalty rates.

Non-crown royalties decreased for the first six months of 2014 compared to the same period in 2013, primarily due to the Company drilling the majority of its new wells in the Carnwood area, which is primarily subject to crown royalties. The percent decrease in non-crown royalties quarter over quarter, is primarily due to production volume declines and fewer wells being drilled on freehold lands.

Production Costs

(\$ 000s except \$ per BOE)	Three months ended			Six Months ended	
	June 30, 2014	March 31, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Production costs (recurring)	17,694	13,925	13,144	31,619	26,970
Production costs (non-recurring) ⁽¹⁾	-	1,100	-	1,100	-
Total Production costs	17,694	15,025	13,144	32,719	26,970
\$ per BOE (recurring)	13.98	12.89	11.44	13.48	12.16
\$ per BOE (total)	13.98	13.90	11.44	13.94	12.16

⁽¹⁾ Non-recurring production costs relate primarily to a one-time freehold mineral tax re-assessment in the Keystone area

Total production costs for the first six months of 2014 increased 21 percent from the comparable period in 2013. The increase in production costs can be attributed to cold weather and a \$1,100,000 adjustment relating to a 2013 freehold mineral tax re-assessment in the Keystone area recorded in the first quarter. In the second quarter, the Company experienced higher than normal scheduled lease and facility maintenance, plant turnarounds and equalizations costs. In the prior year, more of these maintenance and equalization programs took place in the third quarter.

The increase quarter over quarter (after removing the non-recurring costs) is primarily due to higher than normal facility maintenance, plant turnarounds and equalizations in the second quarter.

Other Income

(\$ 000s)	Three months ended			Six Months ended	
	June 30, 2014	March 31, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Investment income	15	18	32	33	67
Administrative income	15	191	8	206	61
Gain on sale of properties	90	581	212	671	212
Realized gain on investments	169	-	163	169	278
	289	790	415	1,079	618

In January 2014, the Company sold a portion of its undeveloped land in the Willesden Green area for cash proceeds of \$1,000,000. At the time of disposition, the Company had a carrying value of \$419,000 for exploration and evaluation expenditures, resulting in a gain on sale of \$581,000.

The market value of the investments held by the Company is \$9,751,000 at June 30 2014 (December 31, 2013 - \$6,804,000). The increase in carrying value is mainly due to increased market value in the investments held, partially offset by investments sold in the period for proceeds of \$445,000 resulting in a gain on sale of \$169,000.

The Company receives 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, 2014	March 31, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Employee compensation expense	1,977	1,930	1,494	3,907	2,881
Office and administration expense (recurring)	1,350	537	465	1,887	1,568
	3,327	2,467	1,959	5,794	4,449
Office and administration expense (non-recurring) ⁽¹⁾	-	-	-	-	992
Total G&A expense	3,327	2,467	1,959	5,794	5,441
\$ per BOE (recurring)	2.63	2.28	1.71	2.47	2.01
\$ per BOE (total)	2.63	2.28	1.71	2.47	2.45

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

Total G&A expense increased to \$5,794,000 for the six months ended June 30, 2014 from \$5,441,000 for the comparable period in 2013.

The increase in employee compensation expense of \$1,026,000 for 2014 compared to 2013 (and \$47,000 Q2 2014 compared to Q1 2013) is primarily due to an increase in staff requirements for the growing operations and accrued bonuses that resulted from higher net earnings before income taxes. The Company has a bonus plan in which the bonus pool consists of a range between 2.5 percent to 3.5 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 with that of the shareholders.

The increase in recurring office and administration expense for the first six months of 2014 compared to 2013 related to increased computer software costs, professional fees, and general office expenditures. The increase quarter over quarter relates primarily to professional fees, computer software costs, insurance and an increase in the allowance for doubtful accounts.

Finance Costs

(\$ 000s except \$ per BOE)	Three months ended			Six Months ended	
	June 30, 2014	March 31, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Interest on long-term debt	1,081	1,016	1,875	2,097	3,478
Other interest	370	342	255	712	436
Interest expense	1,451	1,358	2,130	2,809	3,914
\$ per BOE	1.15	1.26	1.85	1.20	1.76
Unwinding of the discounted value of decommissioning liabilities	313	280	278	593	520
Total finance costs	1,764	1,638	2,408	3,402	4,434

Interest on long-term debt decreased \$1,381,000 in 2014 compared to the same period in 2013 as the Company decreased the bank debt by \$28,234,000 from the end of the second quarter of 2013. The decrease in bank debt was due to increased cash flow, an equity issue in the third quarter of 2013 and stock option proceeds received in the first half of 2014. The Company also experienced lower interest rates on its credit facilities in 2014 due to a lower net debt to cash flow ratio. Interest rates are determined by net debt to cash flow ratios on a trailing quarterly basis.

Other interest relates to amounts paid to related parties (see related party transactions) and a \$40,000,000 subordinated promissory note from a private investor.

A one percent increase (decrease) in the Canadian prime rate would decrease (increase) both annual net earnings and comprehensive income by approximately \$1,223,000.

Share-based Payments

(\$ 000s)	Three months ended			Six Months ended	
	June 30, 2014	March 31, 2014	June 30, 2013	June 30, 2014	June 30, 2013
	622	318	1,135	940	2,327

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.

Share-based payments decreased by \$1,387,000 from a year ago due to 1,350,500 options issued prior to Q1 2013 that were fully amortized prior to Q1 2014.

Based on current outstanding options, the Company anticipates that an expense of approximately \$1,275,000 will be recorded for the remainder of 2014, \$861,000 for 2015, \$240,000 for 2016 and \$54,000 for 2017. For more information about options issued and outstanding, refer to Note 10 of the June 30, 2014 condensed financial statements.

Depletion and Depreciation, Exploration and Evaluation and Goodwill

(\$ 000s)	Three months ended			Six Months ended	
	June 30, 2014	March 31, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Depletion and depreciation	27,788	23,815	28,582	51,603	48,143
Exploration and evaluation expense	4	24	-	28	276

Provision for depletion and depreciation increased by \$3,460,000 for the first six months of 2014 compared to 2013. The increase in depletion and depreciation was mainly the result of higher production volumes and increased property, plant and equipment costs. The quarter over quarter increase was due to an increase in production volumes.

Exploration and evaluation expense related to expired leases.

There were no impairment provisions recorded for the six month period ended June 30, 2014 and June 30, 2013.

Taxes

The Company recorded a deferred tax expense of \$16,610,000 for Q2 2014 (June 30, 2013 - \$12,036,000). The deferred tax expense increase for the first six months of 2014 compared to 2013 is primarily related to increased earnings before income taxes.

On November 14, 2013, the Company received a proposal letter from the Canada Revenue agency (CRA) which stated its intention to challenge the tax consequences of Bonterra's reorganization from a trust to a Corporation, which occurred on November 18, 2008. The CRA position is based on the acquisition and control rules in addition to the general anti-tax avoidance rules in the Income Tax Act. In 2014, if CRA issues a Notice of Reassessment for Bonterra's 2008 and subsequent taxation periods, Bonterra would be required to make a payment of 50% of the tax liability claimed by the CRA in order to appeal this reassessment. If such reassessments are issued and maintained on appeal, Bonterra will owe total cash taxes of approximately \$49 million and have to pay approximately 50% or \$24.5 million for the taxation years since the conversion including the first six months of 2014. Bonterra would have 90 days from the Notice of Reassessment to prepare and file a Notice of Objection. If the CRA is not in agreement with Bonterra's Notice of Objection, Bonterra has the option to file its case with the Tax Court of Canada. Bonterra anticipates that legal proceedings through various tax courts would take approximately 2 to 4 years. If Bonterra receives a positive ruling, then any taxes, interest and penalties paid to the CRA will be refunded plus interest. If Bonterra is unsuccessful then any remaining taxes payable plus interest and penalties will be remitted.

The impact of the proposal on Bonterra's tax provision has been considered by management. Management remains of the opinion, that after careful consideration and consultation at the time of the conversion, Bonterra's subsequent tax filings were correct as filed.

If the proposed reassessments are filed, management will vigorously defend Bonterra's tax filing position.

For additional information regarding income taxes, see Note 9 of the June 30, 2014 condensed financial statements.

Net Earnings

(\$ 000s except \$ per share)	Three months ended			Six Months ended	
	June 30, 2014	March 31, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Net earnings	27,614	23,041	15,119	50,655	27,814
\$ per share – basic	0.87	0.73	0.49	1.59	0.95
\$ per share – diluted	0.86	0.73	0.49	1.58	0.95

Net earnings in the first six months of 2014 increased by \$22,841,000 or 82 percent from the comparable period of 2013. Increased net earnings resulted primarily from increased oil and gas production and commodity prices. This increase was partially offset by an increase in production costs, depletion and depreciation and deferred taxes.

The quarter over quarter increase in net earnings was due to the same factors.

Other Comprehensive Income

Other comprehensive income for 2014 consists of an unrealized gain before tax on investments (including investment in a related party) of \$3,393,000 relating to an increase in the investments' fair value (June 30, 2013 – unrealized gain of \$656,000). The Company also disposed of a portion of these investments in 2014 for a realized gain before tax of \$169,000 (June 30, 2013 - \$278,000). 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, 2014	March 31, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Cash flow from operations	57,089	49,094	41,445	106,183	82,171
\$ per share – basic	1.79	1.56	1.35	3.33	2.81
\$ per share – diluted	1.78	1.55	1.35	3.31	2.81

In 2014, cash flow from operations increased by \$24,012,000 compared to the same period a year ago. This was primarily due to an increase in oil and gas sales, which were partially offset by an increase in production, royalty and G&A expenditures, along with a decrease in non-cash working capital. The quarter over quarter increase of \$7,995,000, was primarily due to increased oil and gas sales from increased production, which was partially offset by increased production and G&A expenditures.

Related Party Transactions

Bonterra holds 1,034,523 (December 31, 2013 – 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, 2014 of \$1,500,000 (December 31, 2013 - \$1,076,000). Pine Cliff paid a management fee to the Company of \$30,000 (June 30, 2013 - \$30,000). Services provided by the Company include executive services, accounting services, oil and gas administration and office administration. All services performed are charged at estimated fair value. As at June 30, 2014, the Company had an account receivable from Pine Cliff of \$228,000 (December 31, 2013 – \$217,000).

As at June 30, 2014, the Company's CEO, Chairman of the Board and major shareholder has loaned the Company \$12,000,000 (December 31, 2013 - \$12,000,000). The loan bears interest at Canadian chartered bank prime less 5/8th of a percent and has no set repayment terms but is payable on demand. Security under the debenture is over all of the Company's assets and is subordinated to any and all claims in favour of the syndicate of senior lenders providing credit facilities to the Company. The loan can only be repaid should the Company have sufficient available borrowing limits under the Company's credit facility. Interest paid on this loan for the first six months of 2014 was \$141,000 (June 30, 2013 - \$141,000). This loan results in a substantial benefit to Bonterra as the interest paid to the CEO by Bonterra is lower than bank interest.

Liquidity and Capital Resources

Net Debt to Cash Flow

Bonterra continues to focus on managing its cash flow, capital expenditures and dividend payments. The Company continues to meet its annual guidance range of 1 to 1 times to 1.5 to 1 times net debt to a twelve month trailing cash flow ratio with a ratio of 0.95 to 1 times. The Company anticipates that with its low net debt to cash flow ratio and continued successful drilling program, it will allow the Company to sustain future cash flows and shareholder dividends.

Working Capital Deficiency

(\$ 000s)	June 30, 2014	December 31, 2013	June 30, 2013
Working capital deficiency	36,399	35,895	26,824
Long-term bank debt	151,145	156,764	179,379
Net debt	187,544	192,659	206,203
Shareholders' equity	699,284	667,641	648,574
Total	886,828	860,300	854,777

Net Debt and Working Capital

Net debt is a combination of long-term bank debt and working capital. Net debt decreased from a year ago. This was primarily attributable to the Company's increased cash flow from increased production and higher field netbacks, stock option proceeds and an equity raise in the third quarter of 2013, offset by increased capital spending, and dividends paid to shareholders on a per share basis. In June 2014, the Company raised the monthly dividend from \$0.29 per share to \$0.30 per share.

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 non-core assets and investments.

Effective January 17, 2014, the Company increased its Subordinated Promissory Note by an additional \$15,000,000, for a total of \$40,000,000 under the same terms and conditions. See Note 7 of the June 30, 2014 condensed financial statements.

The Company has not currently entered into any financial derivative contracts.

Capital Expenditures

During the six month period ended June 30, 2014, the Company incurred capital costs of \$92,702,000 (June 30, 2014 - \$59,237,000) net of proceeds on disposal of property, plant and equipment. The costs relate primarily to the drilling of 24 gross (23.8 net) Cardium operated horizontal wells and nine (2.4 net) non-operated wells, a wholly owned gas plant reactivation, and upgrading facilities and gathering systems.

Long-term Debt

Long-term debt represents the outstanding draws from the Company's credit facilities as described in the notes to the Company's condensed financial statements. As of June 30, 2014, the Company has bank facilities consisting of a \$220,000,000 (December 31, 2013 - \$220,000,000) syndicated revolving credit facility and a \$30,000,000 (December 31, 2013 - \$30,000,000) non-syndicated revolving credit facility. Amounts drawn under these facilities at June 30, 2014 totaled \$151,145,000 (December 31, 2013 - \$156,764,000). The interest rates on the outstanding debt as of June 30, 2014 were 3.8 percent and 3.0 percent on the Company's Canadian prime rate loan and Banker's Acceptances, respectively. The loan is revolving to April 30, 2015 and with a maturity date of April 30, 2016 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 8 of the June 30, 2014 condensed financial statements.

Shareholder's 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.

Issued and fully paid – common shares	Number	Amount (\$ 000s)
Balance, December 31, 2013	31,322,171	685,898
Issued pursuant to the Company's share option plan	678,421	31,303
Transfer from contributed surplus to share capital		2,992
Shares issued for oil and gas properties	18,000	1,104
Balance, June 30, 2014	32,018,592	721,297

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 3,201,859 (December 31, 2013 – 3,132,217) common shares. The exercise price of each option granted will not be lower than the market price of the common shares on the date of grant and the option's maximum term is five years. For additional information regarding options outstanding, see Note 10 of the June 30, 2014 condensed financial statements.

On July 30, 2014 the Company granted 735,000 stock options to employees, directors and consultants with an exercise price of \$61.19, based on the market price immediately preceding the date of grant. The options vest between one to three years and expire between July 31, 2016 to January 31, 2018.

Dividend Policy

For the six month period ended June 30, 2014, Bonterra paid dividends of \$55,180,000 (\$1.74 per share) compared to \$47,433,000 (\$1.64 per share) in the same period in 2013. 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 to 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 drawdowns 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 from operations was 52 percent for the six months ended June 30, 2014 (58 percent for the six months ended June 30, 2013).

Quarterly Financial Information

	2014			2013		
For the periods ended (\$ 000s except \$ per share)	Q2	Q1	Q4	Q3	Q2	Q1
Revenue – oil and gas sales	99,274	82,521	70,917	78,946	79,344	66,468
Cash flow from operations	57,089	49,094	47,772	43,953	41,445	40,726
Net earnings	27,614	23,041	15,254	19,690	15,119	12,695
Per share – basic	0.87	0.73	0.50	0.63	0.49	0.46
Per share – diluted	0.86	0.73	0.49	0.63	0.49	0.46

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

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. Q1 2013 and subsequent periods' revenue, cash flow and net earnings were higher than the prior quarters due to the Company's continued success with its capital drilling program primarily in the Carnwood area.

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. The foregoing factors are not exhaustive.

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 therefrom. 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 1992). 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, 2014, the Company adopted several new IFRS interpretations and amendments in accordance with the transitional provisions of each standard. A brief description of each new accounting policy and its impact on the Company's financial statements are as follows:

IAS 32 "Financial Instruments: Presentation"

Has been amended to clarify certain criteria required to be achieved in order to permit the offsetting of financial assets and financial liabilities. The retrospective adoption of the amendment does not have any impact on Bonterra's financial statements.

IAS 36 "Impairment of Assets"

Has been amended to reduce the circumstances in which the recoverable amount of cash generating units "CGUs" is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in a period. The retrospective adoption of these amendments will only impact Bonterra's disclosures in the financial statements in periods when an impairment loss or impairment reversal is recognized.

IAS 39 "Financial Instruments: Recognition and Measurement"

Has been amended to clarify that there would be no requirement to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The retrospective adoption of the amendments does not have any impact on Bonterra's financial statements.

IFRIC 21 "Levies"

Was developed by the IFRS Interpretations Committee (IFRIC) and is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 "Income Taxes") and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. Lastly, the interpretation clarifies that a liability should not be recognized before the specified minimum threshold to trigger that levy is reached. The retrospective adoption of this interpretation does not have any impact on Bonterra's financial statements.

Future Accounting Pronouncements

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. This standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2017, with earlier adoption permitted. The Company has not yet assessed the impact, if any, that the new amended standard will have on its financial statements or whether to early adopt this new requirement.

In July 2014, the International Accounting Standards Board (IASB) has amended IFRS 9 "Financial Instruments," which amends its classification and measurement of financial assets and introduces a new expected loss impairment model. This standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted and shall be applied retrospectively. The Company has not yet assessed the impact, if any, that the new amended standard will have on its financial statements or whether to early adopt this new requirement.

Share Based Payments

As of May 22, 2014, employees may elect to have the Company settle any or all options vested and exercisable using the cashless equity-settled exercise method. In connection with any such exercise, such employee shall be entitled to receive, without any cash payment (other than the taxes required to be paid in connection with the exercise), whole shares of the Company. The number of shares under option multiplied by the difference of the fair value at the time of exercise less the option exercise price, divided by the fair value at the time of exercise determines the number of whole shares issued.

All other accounting policies remain the same as stated in the Company' audited year ended December 31, 2013 financial statements.

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

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The information provided in this report, including the financial statements, is the responsibility of management. The timely preparation of the financial statements requires that management make estimates and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates primarily relate to unsettled transactions and events as at the date of the financial statements. Accordingly, actual results may differ from estimated amounts as future confirming events occur. 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 have approved the financial statements as presented in this interim report.

CONDENSED STATEMENT OF FINANCIAL POSITION

As at (unaudited)		June 30,	December 31,
(\$ 000s)	Note	2014	2013
Assets			
Current			
Accounts receivable		37,391	27,247
Crude oil inventory		474	749
Prepaid expenses		4,531	1,642
Investments		8,251	5,728
		50,647	35,366
Investment in related party	3	1,500	1,076
Exploration and evaluation assets	4	7,227	7,674
Property, plant and equipment	5	886,291	835,935
Investment tax credit receivable	9	27,670	27,670
Goodwill		92,810	92,810
		1,066,145	1,000,531
Liabilities			
Current			
Accounts payable and accrued liabilities		35,046	34,261
Due to related party	6	12,000	12,000
Subordinated promissory note	7	40,000	25,000
		87,046	71,261
Bank debt	8	151,145	156,764
Decommissioning liabilities		44,154	37,362
Deferred tax liability	9	84,516	67,503
		366,861	332,890
Subsequent events	13		
Shareholders' equity			
Share capital	10	721,297	685,898
Contributed surplus		10,739	12,791
Accumulated other comprehensive income		6,582	3,761
Retained earnings (deficit)		(39,334)	(34,809)
		699,284	667,641
		1,066,145	1,000,531

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF COMPREHENSIVE INCOME**For the periods ended June 30 (unaudited)**

(\$ 000s, except \$ per share)

	Note	Three Months		Six Months	
		2014	2013	2014	2013
Revenue					
Oil and gas sales, net of royalties	11	87,617	67,617	160,672	127,280
Loss on risk management contract		-	(165)	-	(457)
Other income	12	289	415	1,079	618
		87,906	67,867	161,751	127,441
Expenses					
Production		17,694	13,144	32,719	26,970
Office and administration		1,350	465	1,887	2,560
Employee compensation		1,977	1,494	3,907	2,881
Finance		1,764	2,408	3,402	4,434
Share-based payments	10	622	1,135	940	2,327
Depletion and depreciation	5	27,788	28,582	51,603	48,143
Exploration and evaluation	4	4	-	28	276
		51,199	47,228	94,486	87,591
Earnings before income taxes		36,707	20,639	67,265	39,850
Deferred income taxes		9,093	5,520	16,610	12,036
Net earnings for the period		27,614	15,119	50,655	27,814
Other comprehensive income					
Unrealized gains on investments		1,376	138	3,393	656
Deferred taxes on unrealized gains on investments		(172)	(17)	(424)	(82)
Realized gains on investments transferred to net earnings		(169)	(163)	(169)	(278)
Deferred taxes on realized gains on investments transferred to net earnings		21	21	21	35
Other comprehensive income (loss) for the period		1,056	(21)	2,821	331
Total comprehensive income for the period		28,670	15,098	53,476	28,145
Net earnings per share - basic	10	0.87	0.49	1.59	0.95
Net earnings per share – diluted	10	0.86	0.49	1.58	0.95
Comprehensive income per share - basic	10	0.90	0.49	1.68	0.96
Comprehensive income per share – diluted	10	0.89	0.49	1.67	0.96

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF CASH FLOW

For the periods ended June 30 (unaudited)		Three Months		Six Months	
(\$ 000s)	Note	2014	2013	2014	2013
Operating activities					
Earnings before income taxes		36,707	20,639	67,265	39,850
Items not affecting cash					
Share-based payments		622	1,135	940	2,327
Depletion and depreciation		27,788	28,582	51,603	48,143
Exploration and evaluation		4	-	28	276
Unrealized loss on risk management contract		-	(270)	-	(253)
Unwinding of the fair value of decommissioning liabilities		313	278	593	520
Gain on sale of properties		(90)	(212)	(671)	(212)
Gain on sale of investments		(169)	(163)	(169)	(278)
Investment income		(15)	(32)	(33)	(67)
Interest expense		1,451	2,129	2,809	3,913
Change in non-cash working capital accounts:					
Change in accounts receivable		(4,783)	(354)	(9,710)	(3,131)
Change in crude oil inventory		652	54	133	132
Change in prepaid expenses		(2,732)	(362)	(2,889)	(150)
Change in accounts payable and accrued liabilities		(841)	(7,781)	(133)	(4,739)
Decommissioning expenditures		(367)	(69)	(774)	(247)
Interest paid		(1,451)	(2,129)	(2,809)	(3,913)
Cash provided by operating activities		57,089	41,445	106,183	82,171
Financing activities					
Increase (decrease) in bank debt		8,042	(10,130)	(5,619)	12,571
Subordinated promissory note		-	10,000	15,000	10,000
Stock option proceeds		18,414	-	31,303	-
Dividends		(27,750)	(25,721)	(55,180)	(47,433)
Cash used in financing activities		(1,294)	(25,851)	(14,496)	(24,862)
Investing activities					
Investment income received		15	32	33	67
Exploration and evaluation expenditures		-	(13)	-	(13)
Property, plant and equipment expenditures		(38,618)	(12,124)	(93,854)	(61,630)
Proceeds on sale of properties	4	152	2,406	1,152	2,406
Proceeds on sale of investments		445	577	445	968
Cash acquired on acquisition		-	-	-	10,000
Change in non-cash working capital accounts:					
Change in accounts payable and accrued liabilities		(17,697)	(12,861)	918	(13,204)
Change in accounts receivable		(92)	6,389	(381)	4,097
Cash used in investing activities		(55,795)	(15,594)	(91,687)	(57,309)
Net cash inflow		-	-	-	-
Cash, beginning of period		-	-	-	-
Cash, end of period		-	-	-	-

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF CHANGES IN EQUITY

For the periods ended (unaudited)

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

	Number of shares outstanding (Note 10)	Share capital (Note 10)	Contributed surplus ⁽¹⁾	Accumulated other comprehensive income ⁽²⁾	Retained earnings (deficit)	Total shareholders' equity
January 1, 2013	19,909,541	149,877	9,167	1,620	2,613	163,277
Share-based payments			2,327			2,327
Acquisition	10,711,405	502,258				502,258
Comprehensive income				331	27,814	28,145
Dividends					(47,433)	(47,433)
June 30, 2013	30,620,946	652,135	11,494	1,951	(17,006)	648,574
Share-based payments			1,828			1,828
Share issuance	553,725	27,603				27,603
Share issue costs, net of tax		(996)				(996)
Exercise of options	147,500	6,625				6,625
Transfer to share capital on exercise of options		531	(531)			
Comprehensive income				1,810	34,944	36,754
Dividends					(52,747)	(52,747)
December 31, 2013	31,322,171	685,898	12,791	3,761	(34,809)	667,641
Share-based payments			940			940
Exercise of options	678,421	31,303				31,303
Transfer to share capital on exercise of options		2,992	(2,992)			-
Shares issued for oil and gas properties	18,000	1,104				1,104
Comprehensive income				2,821	50,655	53,476
Dividends					(55,180)	(55,180)
June 30, 2014	32,018,592	721,297	10,739	6,582	(39,334)	699,284

⁽¹⁾ Contributed surplus comprises of share-based payments

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

See accompanying notes to these condensed financial statements.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

As at June 30, 2014 and December 31, 2013 and for the three and six months ended June 30, 2014 and 2013 (unaudited)

1. NATURE OF BUSINESS AND SEGMENT INFORMATION

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

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

The financial statements were authorized for issue by the Company's Board of Directors on August 13, 2014.

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 2013 audited annual financial statements, except for the accounting policy change listed 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 2013 audited annual financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

b) Share based payments

As of May 22, 2014, employees may elect to have the Company settle any or all options vested and exercisable using the cashless equity-settled exercise method. In connection with any such exercise, such employee shall be entitled to receive, without any cash payment (other than the taxes required to be paid in connection with the exercise), whole shares of the Company. The number of shares under option multiplied by the difference of the fair value at the time of exercise less the option exercise price, divided by the fair value at the time of exercise determines the number of whole shares issued.

c) Recent Accounting Pronouncements

As of January 1, 2014, the Company adopted several new IFRS interpretations and amendments in accordance with the transitional provisions of each standard. A brief description of each new accounting policy and its impact on the Company's financial statements are as follows:

IAS 32 “Financial Instruments: Presentation”

Has been amended to clarify certain criteria required to be achieved in order to permit the offsetting of financial assets and financial liabilities. The retrospective adoption of the amendment does not have any impact on Bonterra’s financial statements.

IAS 36 “Impairment of Assets”

Has been amended to reduce the circumstances in which the recoverable amount of cash generating units “CGUs” is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in a period. The retrospective adoption of these amendments will only impact Bonterra’s disclosures in the financial statements in periods when an impairment loss or impairment reversal is recognized.

IAS 39 “Financial Instruments: Recognition and Measurement”

Has been amended to clarify that there would be no requirement to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The retrospective adoption of the amendment does not have any impact on Bonterra’s financial statements.

IFRIC 21 “Levies”

Was developed by the IFRS Interpretations Committee (IFRIC) and is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 “Income Taxes”) and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. Lastly, the interpretation clarifies that a liability should not be recognized before the specified minimum threshold to trigger that levy is reached. The retrospective adoption of this interpretation does not have any impact on Bonterra’s financial statements.

d) Future Accounting Pronouncements

In May 2014, the IASB issued IFRS 15 “Revenue from Contracts with Customers,” which replaces IAS 18 “Revenue,” IAS 11 “Construction Contracts,” and related interpretations. This standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2017, with earlier adoption permitted. The Company has not yet assessed the impact, if any, that the new amended standard will have on its financial statements or whether to early adopt this new requirement.

In July 2014, the International Accounting Standards Board (IASB) has amended IFRS 9 “Financial Instruments”, which amends its classification and measurement of financial assets and introduces a new expected loss impairment model. This standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted and shall be applied retrospectively. The Company has not yet assessed the impact, if any, that the new amended standard will have on its financial statements or whether to early adopt this new requirement.

3. INVESTMENT IN RELATED PARTY

The investment consists of 1,034,523 (December 31, 2013 – 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 one 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, 2013 – 204,633) common shares in Bonterra.

4. EXPLORATION AND EVALUATION ASSETS

(\$ 000s)

Cost and carrying amount	
Balance at December 31, 2013	7,674
Disposal	(419)
Expiry of exploration and evaluation assets	(28)
Balance at June 30, 2014	7,227

In January 2014, the Company sold a portion of its undeveloped land in the Willesden Green area for cash proceeds of \$1,000,000. At the time of disposition, the Company had a carrying value of \$419,000 for exploration and evaluation expenditures, resulting in a gain on sale of \$581,000.

5. PROPERTY, PLANT AND EQUIPMENT

Cost (\$ 000s)	Oil and gas properties	Production facilities	Furniture, fixtures & other equipment	Total property, plant & equipment
Balance at December 31, 2013	892,166	215,950	1,940	1,110,056
Additions	74,536	20,353	18	94,907
Adjustment to decommissioning liabilities	6,973	-	-	6,973
Disposal	-	(62)	-	(62)
Balance at June 30, 2014	973,675	236,241	1,958	1,211,874

Accumulated Depletion and Depreciation (\$ 000s)	Oil and gas properties	Production facilities	Furniture, fixtures & other equipment	Total property, plant & equipment
Balance at December 31, 2013	(217,522)	(55,278)	(1,321)	(274,121)
Depletion and depreciation	(42,562)	(8,989)	(52)	(51,603)
Disposal and other	141	-	-	141
Balance at June 30, 2014	(259,943)	(64,267)	(1,373)	(325,583)

Carrying amounts as at:

(\$ 000s)

December 31, 2013	674,644	160,672	619	835,935
June 30, 2014	713,732	171,974	585	886,291

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 or reversals recorded in the statement of comprehensive income for the three and six months ended June 30, 2014 and 2013.

6. TRANSACTIONS WITH RELATED PARTIES

As at June 30, 2014, the Company's CEO, Chairman of the Board and major shareholder has loaned the Company \$12,000,000 (December 31, 2013 - \$12,000,000). The loan bears interest at Canadian chartered bank prime less 5/8th of a percent and has no set repayment terms but is payable on demand. Security under the debenture is over all of the Company's assets and is subordinated to any and all claims in favour of the syndicate of senior lenders providing credit facilities to the Company. Interest paid on this loan during the first six months was \$141,000 (June 30, 2014 - \$141,000).

The Company received a management fee of \$30,000 for the six months ended June 30, 2014 (June 30, 2013 - \$30,000) for management services and office administration from Pine Cliff. This fee has been included in other

income. As at June 30, 2014, the Company had an account receivable from Pine Cliff of \$228,000 (December 31, 2013 - \$217,000).

7. SUBORDINATED PROMISSORY NOTE

As at June 30, 2014, Bonterra has borrowed \$40,000,000 (December 31, 2013 - \$25,000,000) 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 repayable after thirty days written notice by either party. Security consists of a floating demand debenture totaling \$40,000,000 over all of the Company's assets and is subordinated to any and all claims in favor of the syndicate of senior lenders providing credit facilities to the Company. Interest paid on the subordinated promissory note during the first six months was \$570,000 (June 30, 2013 - \$295,000).

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.

8. BANK DEBT

As at June 30, 2014, the Company has bank facilities consisting of \$220,000,000 (December 31, 2013 - \$220,000,000) syndicated revolving credit facility and a \$30,000,000 (December 31, 2013 - \$30,000,000) non-syndicated revolving credit facility, for total facilities of \$250,000,000. Amounts drawn under the credit facilities at June 30, 2014 were \$151,145,000 (December 31, 2013 - \$156,764,000). Amounts borrowed under the credit facilities at June 30, 2014 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 30, 2015 and with a maturity date of April 30, 2016 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, 2014 (December 31, 2013 - \$700,000). Security for credit facilities consists of various and floating demand debentures totaling \$400,000,000 (December 31, 2013 - \$400,000,000) 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 the 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, 2014, the Company is in compliance with all covenants.

9. 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	89,793
Eligible capital expenditures	7	5,322
Share issue costs	20	5,643
Canadian oil and gas property expenditures	10	64,232
Canadian development expenditures	30	252,328
Canadian exploration expenditures	100	7,795
Income tax losses carried forward ⁽¹⁾	100	112,786
		537,899

⁽¹⁾ Federal income tax losses carried forward expire in the following years; 2026 - \$55,106,000; 2027 - \$35,248,000; 2028 - \$13,131,000; 2031 - \$9,301,000.

The Company has \$27,670,000 (December 31, 2013 - \$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 - \$1,995,000; 2024 - \$2,257,000; 2025 - \$2,405,000; 2026 - \$2,009,000; and 2027 - \$745,000.

The Company also has \$134,193,000 (December 31, 2013 - \$134,938,000) of capital loss carry forwards which can only be claimed against taxable capital gains.

On November 14, 2013, the Company received a proposal letter from the Canada Revenue Agency (CRA) which stated its intention to challenge the tax consequences of Bonterra's reorganization from a trust to a Corporation, which occurred on November 18, 2008. The CRA position is based on the acquisition and control rules in addition to the general anti-tax avoidance rules in the Income Tax Act. In 2014, if CRA issues a Notice of Reassessment for Bonterra's 2008 and subsequent taxation periods, Bonterra would be required to make a payment of 50% of the tax liability claimed by the CRA in order to appeal this reassessment. If such reassessments are issued and maintained on appeal, Bonterra will owe total cash taxes of approximately \$49 million and have to pay approximately 50% or \$24.5 million for the taxation years since the conversion including the first six months of 2014. Bonterra would have 90 days from the Notice of Reassessment to prepare and file a Notice of Objection. If the CRA is not in agreement with Bonterra's Notice of Objection, Bonterra has the option to file its case with the Tax Court of Canada. Bonterra anticipates that legal proceedings through various tax courts would take approximately 2 to 4 years. If Bonterra receives a positive ruling, then any taxes, interest and penalties paid to the CRA will be refunded plus interest. If Bonterra is unsuccessful then any remaining taxes payable plus interest and penalties will be remitted.

The impact of the proposal on Bonterra's tax provision has been considered by management. Management remains of the opinion, that after careful consideration and consultation at the time of the conversion, Bonterra's subsequent tax filings were correct as filed.

If the proposed reassessments are filed, management will vigorously defend Bonterra's tax filing position.

10. 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, 2013	31,322,171	685,898
Issued pursuant to the Company's share option plan	678,421	31,303
Transfer from contributed surplus to share capital		2,992
Shares issued for oil and gas properties	18,000	1,104
Balance, June 30, 2014	32,018,592	721,297

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 is as follows:

	Three Months		Six Months	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Basic shares outstanding	31,901,711	30,620,946	31,865,760	29,200,649
Dilutive effect of share options ⁽¹⁾	212,340	87,822	189,632	72,948
Diluted shares outstanding	32,114,051	30,708,768	32,055,392	29,273,597

⁽¹⁾ The Company did not include 192,000 share options for the three months ended June 30, 2014 (June 30, 2013 – 1,085,000) and 210,000 share options for the six months ended June 30 2014 (June 30, 2013 1,131,000) in the dilutive effect of share options calculation as these share options were anti-dilutive.

For the three months ended June 30, 2014, the Company declared and paid dividends of \$27,750,000 (\$0.87 per share) (June 30, 2013 - \$25,721,000 (\$0.84 per share)). For the six months ended June 30, 2014, the Company declared and paid dividends of \$55,180,000 (\$1.74 per share) (June 30, 2013 - \$47,433,000 (\$1.64 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 3,201,859 (December 31, 2013 – 3,132,217) common shares. The exercise price of each option granted cannot be lower than the market price of the common shares on the date of grant and the option’s maximum term is five years.

A summary of the status of the Company’s stock option plan as of June 30, 2014, and changes during the year ended on those dates is presented below:

	Number of options	Weighted average exercise price
Balance, December 31, 2013	1,650,500	\$48.31
Options granted	985,000	53.22
Options exercised	(713,100)	46.78
Options forfeited	(194,000)	49.09
Options expired	(120,000)	58.67
Balance, June 30, 2014	1,608,400	\$51.13

The following table summarizes information about options outstanding at June 30, 2014:

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number outstanding at June 30, 2014	Weighted-average remaining contractual life	Weighted- average exercise price	Number exercisable at June 30, 2014	Weighted- average exercise price
\$ 40.00 – \$ 50.00	402,900	1.4 years	\$45.99	80,900	\$42.94
50.01 – 60.00	1,145,500	1.3 years	52.39	274,000	50.83
60.01 – 65.00	60,000	2.5 years	61.47	-	-
\$ 40.00 – \$ 65.00	1,608,400	1.4 years	\$51.13	354,900	\$49.03

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 2014, the Company granted

985,000 stock options with an estimated fair value of \$2,620,000 or \$2.66 per option using the Black-Scholes option pricing model with the following key assumptions:

	June 30, 2014
Weighted-average risk free interest rate (%) ⁽¹⁾	1.00
Expected life (years)	1.3
Weighted-average volatility (%) ⁽²⁾	18.07
Forfeiture rate (%)	-
Weighted average dividend yield (%)	6.55

⁽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.

11. OIL AND GAS SALES, NET OF ROYALTIES

(\$ 000s)	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Oil and gas sales	99,274	79,344	181,795	145,812
Less:				
Crown royalties	(7,480)	(4,903)	(12,713)	(8,887)
Freehold, gross overriding royalties and other	(4,177)	(6,824)	(8,410)	(9,645)
Oil and gas sales, net of royalties	87,617	67,617	160,672	127,280

12. OTHER INCOME

(\$ 000s)	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Investment income	15	32	33	67
Administrative income	15	8	206	61
Gain on sale of properties	90	212	671	212
Realized gain on investments	169	163	169	278
Other income	289	415	1,079	618

13. SUBSEQUENT EVENTS

i) Dividends

Subsequent to June 30, 2014, the Company declared the following dividends:

Date declared	Record date	\$ per share	Date payable
July 2, 2014	July 15, 2014	0.30	July 31, 2014
August 1, 2014	August 15, 2014	0.30	August 29, 2014

ii) Options

On July 30, 2014 the Company granted 735,000 stock options to employees, directors and consultants with an exercise price of \$61.19, based on the market price immediately preceding the date of grant. The options vest between one to three years and expire between July 31, 2016 to January 31, 2018.

Corporate Information

Board of Directors

G. F. Fink - Chairman
G. J. Drummond
R. M. Jarock
C. R. Jonsson
R. A. Tourigny

Officers

G. F. Fink, CEO and Chairman of the Board
R. D. Thompson, CFO and Corporate Secretary
A. Neumann, Chief Operating Officer
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

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