Bonterra Energy Corp. **Q3** For the Nine Months ended September 30, 2015

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BONTERRA ENERGY REPORTS THREE AND NINE MONTHS OF 2015 OPERATING AND UNAUDITED FINANCIAL RESULTS

HIGHLIGHTS

As at and for the periods ended ($ 000s except for $ per share)		Three Months ended **September 30, 2015**	Three Months ended September 30, 2014	Nine Months ended **September 30, 2015**	Nine Months ended September 30, 2014
FINANCIAL					
Revenue – realized oil and gas sales [1]		**52,160**	88,959	**152,561**	270,754
Funds flow [1][3]		**28,754**	57,705	**93,902**	177,739
Per share – basic		**0.87**	1.80	**2.89**	5.57
Per share – diluted		**0.87**	1.79	**2.89**	5.54
Payout ratio		**52%**	50%	**52%**	47%
Cash flow from operations		**36,024**	65,705	**80,063**	171,888
Per share – basic		**1.09**	2.05	**2.47**	5.38
Per share – diluted		**1.09**	2.03	**2.47**	5.35
Payout ratio		**41%**	44%	**61%**	49%
Cash dividends per share		**0.45**	0.90	**1.50**	2.64
Earnings before income taxes		**746**	28,207	**7,205**	95,472
Net earnings (loss)		**(321)**	20,983	**(4,967)**	71,638
Per share – basic		**(0.01)**	0.65	**(0.15)**	2.24
Per share – diluted		**(0.01)**	0.65	**(0.15)**	2.23
Capital expenditures net of dispositions		**14,402**	41,205	**50,114**	133,907
Acquisition[2]		**-**	-	**170,430**	-
Total assets				**1,200,856**	1,080,801
Working capital deficiency				**29,080**	55,047
Long-term debt				**335,863**	140,339
Shareholders' equity				**610,793**	697,337
OPERATIONS					
Oil	-barrels per day [1]	**9,177**	8,874	**8,713**	8,521
	-average price ($ per barrel)	**53.26**	92.73	**55.58**	97.27
NGLs	-barrels per day [1]	**753**	818	**740**	772
	-average price ($ per barrel)	**18.05**	54.13	**20.58**	58.13
Natural gas	-MCF per day [1]	**19,191**	21,981	**19,449**	22,816
	-average price ($ per MCF)	**3.36**	4.54	**3.05**	5.17
Total barrels of oil equivalent per day (BOE) [1][4]		**13,129**	13,355	**12,695**	13,096

(1) Nine month figures for 2015 include the results of a purchase ("the Acquisition") of primarily Pembina Cardium oil and gas assets ("Pembina Assets") for the period of April 15, 2015 to September 30, 2015. For the nine months ended September 30, 2015, production includes 168 days for the Pembina Assets and 273 days for Bonterra.

(2) For 2015, includes the Acquisition that closed April 15, 2015 for $170,430,000.

(3) 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.

(4) 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.

Report to Shareholders

Bonterra Energy Corp. ("Bonterra" or the "Company") is pleased to report its financial and operational results for the third quarter and nine month period ending September 30, 2015.

The first nine months of 2015 have been extremely challenging. Oil and natural gas prices are much lower than had been projected; the Provincial and Federal governments changed; and, the pipeline situations continue to be unresolved.

Unknowns

The industry is faced with many unknowns.

- The results of the Alberta royalty review.
- The implications of carbon taxes.
- The impact on funds flow from the 20 percent increase in the Alberta corporate tax rate.
- What will happen with regard to Federal taxation.
- Will any new pipelines be approved.
- Will investors reduce their investments if rates of returns are substantially reduced.
- Will industry be able to educate Canadians with regard to what the industry contributes to Canada overall and to reduce the misconceptions about the resources industries.
- Will reduced capital expenditures on a worldwide basis eventually result in oil production volumes being less than world demand.

Impact on Bonterra

Bonterra will be somewhat affected by the above mentioned issues, but likely not as much as many other resource entities. Some of Bonterra's advantages are:

- Its low overall corporate costs of approximately CDN $20.00 per barrel of oil equivalent for the costs of royalties, operating expense, administration expenses and interest on debt.
- Its large inventory of economic drill locations that generate positive returns even in the current commodity price environment.
- Its ability to sustain its monthly dividend of $0.15 per share and maintain its existing production volumes with an oil price of US $45.00 per barrel, a natural gas price of CDN $3.00 per mcf and a natural gas liquids price of CDN $23.00 per barrel.
- To substantially grow production volumes, increase dividends and reduce debt, or a combination thereof, when commodity prices increase.
- The Company's lending banks have agreed to maintain the credit facilities at $425 million. Many companies have had a reduction to their line of credit. This is an endorsement with regard to the quality of Bonterra's assets and reserves.

Going Forward

Bonterra will continue to assess its activity levels on an ongoing basis. Although the Company cannot control or influence commodity prices, nor directly impact the policies adopted by the newly elected Provincial and Federal governments, it can continue to modify as required. Bonterra will continue to take a measured approach to managing the current low commodity prices while focusing on operational efficiencies, financial discipline and optimal returns for shareholders, regardless of the broader commodity weakness and political uncertainty. It is hoped that the newly elected members of government at all levels will exercise good judgement and make informed decisions that are in the best interests of this very important industry and of all Canadians during this challenging period.

Bonterra is in a strong position and will look to modestly, but responsibly, grow under the current circumstances. Thank you all for your patience and support during these challenging times.

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

Management's Discussion and Analysis

The following report dated November 12, 2015 is a review of the operations and current financial position for the nine months ended September 30, 2015 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, 2014 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 as a percentage 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" or "Edmonton Par" 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

	2015			2014			
As at and for the periods ended ($ 000s except $ per share)	**Q3**	Q2 [1]	Q1	Q4	Q3	Q2	Q1
Financial							
Revenue – oil and gas sales	**52,160**	57,921	42,480	68,940	88,959	99,274	82,521
Cash flow from operations	**36,024**	17,960	26,079	50,465	65,705	57,089	49,094
Per share – basic	**1.09**	0.56	0.81	1.57	2.05	1.79	1.56
Per share – diluted	**1.09**	0.56	0.81	1.57	2.03	1.78	1.55
Payout ratio	**41%**	81%	74%	57%	44%	49%	56%
Cash dividends per share	**0.45**	0.45	0.60	0.90	0.90	0.87	0.87
Net earnings (loss)	**(321)**	(2,711)	(1,935)	(32,877) [4]	20,983	27,614	23,041
Per share – basic	**(0.01)**	(0.08)	(0.06)	(1.04)	0.65	0.87	0.73
Per share – diluted	**(0.01)**	(0.08)	(0.06)	(1.03)	0.65	0.86	0.73
Capital expenditures and acquisitions, net of dispositions	**14,402**	167,182 [2]	38,960 [3]	20,605	41,205	39,519	54,236
Total assets	**1,200,856**	1,225,291	1,072,534	1,042,938	1,080,801	1,066,145	1,043,822
Working capital deficiency	**29,080**	27,558	37,633	53,642	55,047	36,399	62,488
Long-term debt	**335,863**	361,430	207,217	154,723	140,339	151,145	143,103
Shareholders' equity	**610,793**	599,911	613,886	635,198	697,337	699,284	678,224
Operations							
Oil (barrels per day)	**9,177**	8,823	8,128	8,762	8,874	9,109	7,567
NGLs (barrels per day)	**753**	677	791	911	818	775	721
Natural gas (MCF per day)	**19,191**	19,452	19,709	22,883	21,981	24,163	22,307
Total BOE per day	**13,129**	12,743	12,204	13,488	13,355	13,911	12,006

(1) Quarterly figures for Q2 2015 include the results of a purchase (the Acquisition) of primarily Pembina Cardium oil and gas assets (Pembina Assets), for the period of April 15, 2015 to June 30, 2015. Production includes 76 days for the Pembina Assets and 91 days for Bonterra.

(2) Includes $153,230,000 (less a deposit of $17,200,000) for the Acquisition that closed on April 15, 2015 and capital expenditures of $13,952,000.

(3) Includes a deposit of $17,200,000 for the Acquisition and capital expenditures of $21,760,000.

(4) Net loss in the fourth quarter of 2014 is primarily due to an increase in deferred tax expense as a result of an agreement with Canada Revenue Agency.

As at and for the periods ended ($ 000s except $ per share)	2013 Q4	2013 Q3	2013 Q2	2013 Q1 [5]
Financial				
Revenue – oil and gas sales	70,917	78,946	79,344	66,468
Cash flow from operations	47,772	43,953	41,445	40,726
Per share – basic	1.53	1.41	1.35	1.47
Per share – diluted	1.52	1.40	1.35	1.46
Payout ratio	56%	60%	62%	53%
Cash dividends per share	0.85	0.84	0.84	0.80
Net earnings	15,254	19,690	15,119	12,695
Per share – basic	0.50	0.63	0.49	0.46
Per share – diluted	0.49	0.63	0.49	0.46
Capital expenditures and acquisitions, net of dispositions	25,965	34,025	9,731	39,506 [6]
Total assets	1,000,531	1,002,773	987,067	1,016,594
Working capital deficiency	35,895	43,681	26,824	31,519
Long-term debt	156,764	147,189	179,379	189,509
Shareholders' equity	667,641	671,528	648,574	658,062
Operations				
Oil (barrels per day)	7,964	7,310	8,414	7,459
NGLs (barrels per day)	691	772	782	732
Natural gas (MCF per day)	22,802	22,274	20,554	22,176
Total BOE per day	12,456	11,794	12,621	11,887

(5) Quarterly figures for Q1 2013 include the results of a corporate acquisition, for the period of January 25, 2013 to March 31, 2013. Production includes 65 days for the acquired properties and 90 days for Bonterra.

(6) Includes the corporate acquisition that closed on January 25, 2013 that included $10,000,000 of acquired cash that reduced capital expenditures from $49,506,000.

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.

	Q3-2015	Q2-2015	Q1-2015	Q4-2014	Q3-2014	Q2-2014	Q1-2014	Q4-2013
Crude oil								
WTI (U.S.$/bbl)	**46.43**	57.94	48.63	73.15	97.17	102.99	98.68	97.44
WTI to MSW Stream Index Differential (U.S.$/bbl)[1]	**(3.45)**	(2.93)	(6.93)	(6.46)	(7.93)	(6.14)	(8.25)	(14.93)
Foreign exchange								
U.S.$ to Cdn$	**1.3094**	1.2294	1.2411	1.1357	1.0893	1.0905	1.1035	1.0498
Bonterra average realized oil price (Cdn$/bbl)	**53.26**	64.27	48.70	71.37	92.73	102.36	96.53	80.88
Natural gas								
AECO (Cdn$/mcf)	**2.89**	2.64	2.74	3.58	4.00	4.67	5.69	3.52
Bonterra average realized gas price (Cdn$/mcf)	**3.36**	2.83	2.97	3.92	4.54	4.85	6.16	3.85

(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 can be impacted by numerous events, some of which are:

- Worldwide crude oil supply and demand imbalance;
- Geo-political events that affect worldwide crude oil production;
- North American production trends;
- The reduced value of the Canadian dollar compared to the U.S. dollar continues to positively affect Bonterra's realized prices;
- Whether there is sufficient take-away capacity to transport energy commodities; and
- Timing of plant and refinery turnarounds.

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 2015[1]			
Impact on cash flow	Change ($)	$000s	$ per share[2]
Realized crude oil price ($/bbl)	1.00	3,007	0.09
Realized natural gas price ($/mcf)	0.10	680	0.02
U.S.$ to Canadian $ exchange rate	0.01	1,293	0.04

(1) This analysis uses current royalty rates, annualized estimated average production of 12,800 BOE per day and no changes in working capital
(2) Based on annualized basic weighted average shares outstanding of 32,641,855

Business Overview, Strategy and Key Performance Drivers

During the first nine months of 2015, in a low commodity market, the Company was able to lower capital costs on a per well basis by approximately 25 percent, reduce production costs by 19 percent and general and administrative costs by 37 percent from the same period a year ago. These reductions were achieved by lower service company costs, shutting-in marginal production, further field optimizations and reductions in overall staff compensation. The Company also has flexibility to manage capital costs related to undrilled locations by allowing for accelerated development as commodity prices improve. The Company continued with its Cardium focused capital program in the third quarter by drilling 6 gross (5.9 net) wells, which will be completed and tied-in before the end of the year.

On April 15, 2015, the Company acquired certain oil and gas assets (the "Pembina Assets") from a senior oil and gas producer (the "Acquisition"). The Pembina Assets are Cardium focused in the Pembina Area of Alberta, with a production base that is complementary to existing Bonterra acreage, and which provides additional inventory of long-term drilling locations. Consideration for the Pembina Assets was $170,430,000. If Bonterra had closed the Acquisition on January 1, 2015, the Pembina Assets would have added approximately 1,728 BOE per day of production, oil and gas sales of approximately $22,876,000, royalty expenses of approximately $722,000 and production costs of approximately $11,076,000 for the nine months ended September 30, 2015. The combined production for the Company for the first nine months would have been 13,352 BOE per day. The amounts recorded for the period April 15, 2015 to September 30, 2015 for the Pembina Assets include oil and gas sales of $15,007,000, royalty expenses of $342,000 and production costs of $6,766,000. The Pembina Assets are approximately 86 percent oil and NGL weighted with a very low decline rate of seven percent. These assets also include 136 net future potential drilling locations and supporting infrastructure. For more information about the Acquisition, refer to Note 3 of the September 30, 2015 condensed financial statements.

The Company averaged 13,129 BOE per day for the third quarter of 2015, which was lower than expected by approximately 1,100 BOE per day due to the shut-in production from non-operated facility turnarounds, oil apportionments, gas capacity restrictions imposed by Trans Canada Pipelines and further restrictions for a downstream non-operated meter station expansion. The Company has reactivated approximately 400 BOE per day of its shut-in production from the second quarter as a result of redirecting solution gas to alternative gas plants. In the fourth quarter of 2015, Bonterra will become operator of a third gas plant in the Pembina Cardium area that it has ownership in. The ability to redirect gas to operated facilities should further reduce a portion of the shut-in issues experienced in the first nine months of 2015 while lowering gas processing costs. The Company continues to leave marginal uneconomic wells shut-in to reduce workover costs. These wells will be reactivated when commodity prices increase. The Company averaged 12,695 BOE per day for the first nine months of 2015 and with some of the shut-in issues addressed, as well as the impact of the Acquisition and Bonterra's 2015 capital program, the Company is estimating that its average annual production for 2015 will be approximately 12,800 BOE per day.

During the first nine months of 2015 Bonterra spent approximately $50,114,000 on its capital program, primarily on the drilling of 17 gross (15.2 net) operated wells and completing and tying-in 21 gross (19.2 net) wells (of which 10 wells were drilled in 2014, but not completed until 2015). The Company also added field compression to redirect gas production in the Carnwood area to its two wholly owned plants.

The Company currently anticipates spending approximately $58 million (excluding the Acquisition) on its maintenance capital program for 2015. The Company continues to evaluate its overall corporate operations on a month by month basis depending on commodity prices.

Bonterra's successful operations are dependent upon several factors, including but not limited to, commodity prices, efficient management of 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						Nine months ended			
	September 30, 2015		June 30, 2015		September 30, 2014		**September 30, 2015**		September 30, 2014	
	Gross[(1)]	**Net[(2)]**	Gross[(1)]	Net[(2)]	Gross[(1)]	Net[(2)]	**Gross[(1)]**	**Net[(2)]**	Gross[(1)]	Net[(2)]
Crude oil horizontal-operated	**6**	**5.9**	4	3.9	9	8.9	**17**	**15.2**	33	32.7
Crude oil horizontal-non-operated	**2**	**0.3**	-	-	13	2.5	**3**	**0.4**	22	4.9
Total	**8**	**6.2**	4	3.9	22	11.4	**20**	**15.6**	55	37.6
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 nine months of 2015, the Company placed 10 gross (9.9 net) wells on production that were drilled in the later part of 2014, drilled 17 gross (15.2 net) wells during the first nine months of 2015, of which 11 gross (9.3 net) were placed on production with the remaining 6 wells scheduled to be on production in the fourth quarter of 2015. As well, 3 gross (0.4 net) non-operated wells were drilled and placed on production during the period.

Production

	Three months ended			Nine months ended	
	September 30, 2015	June 30, 2015	September 30, 2014	**September 30, 2015**	September 30, 2014
Crude oil (barrels per day)	**9,177**	8,823	8,874	**8,713**	8,521
NGLs (barrels per day)	**753**	677	818	**740**	772
Natural gas (MCF per day)	**19,191**	19,452	21,981	**19,449**	22,816
Average BOE per day	**13,129**	12,743	13,355	**12,695**	13,096

Production volumes during the first nine months of 2015 decreased to 12,695 BOE per day compared to 13,096 BOE per day during the same period in 2014. The decrease in production is primarily due to approximately 1,200 BOE per day being shut-in due to non-operated facility turnarounds, oil apportionments, gas capacity restrictions imposed by Trans Canada Pipelines and further restrictions for a downstream non-operated meter station expansion. In addition, significantly lower capital spending in the first nine months of 2015 related to substantial decreases in commodity prices compared to the same period a year ago reduced the number of new wells drilled. This has been partially offset by production from the acquired Pembina Assets in the second and third quarters of 2015. Quarter over quarter, production volumes increased by 386 BOE per day despite 1,100 BOE per day of production being shut-in. This increase is due to 12 (11.9 net) new wells being placed on production in June and July.

Cash Netback

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

	Three months ended			Nine months ended	
$ per BOE	**September 30, 2015**	June 30, 2015	September 30, 2014	**September 30, 2015**	September 30, 2014
Production volumes (BOE)	**1,207,856**	1,159,570	1,228,681	**3,465,801**	3,575,166
Gross production revenue	**$43.18**	$49.95	$72.40	**$44.02**	$75.73
Royalties	**(3.06)**	(2.79)	(7.90)	**(3.01)**	(8.62)
Production costs	**(12.06)**	(12.01)	(15.17)	**(12.00)**	(14.37)
Field netback	**$28.06**	$35.15	$49.33	**$29.01**	$52.74
General and administrative	**(1.59)**	(1.52)	(2.12)	**(1.54)**	(2.35)
Interest and other	**(2.63)**	(3.41)	(1.14)	**(2.47)**	(1.11)
Cash netback	**$23.84**	$30.22	$46.07	**$25.00**	$49.28

Cash netbacks have decreased in the first nine months of 2015 compared to the first nine months of 2014 primarily due to lower commodity prices and an increase in interest expense from funding the Pembina Assets with debt, which was partially offset by lower royalties, production costs and general and administration costs. Quarter over quarter, cash netbacks decreased mainly due to lower crude oil prices.

Oil and Gas Sales

	Three months ended			Nine months ended	
	September 30, 2015	June 30, 2015	September 30, 2014	**September 30, 2015**	September 30, 2014
Revenue – oil and gas sales ($ 000s)	**52,160**	57,921	88,959	**152,561**	270,754
Average Realized Prices:					
Crude oil ($ per barrel)	**53.26**	64.27	92.73	**55.58**	97.27
NGLs ($ per barrel)	**18.05**	21.35	54.13	**20.58**	58.13
Natural gas ($ per MCF)	**3.36**	2.83	4.54	**3.05**	5.17
Average ($ per BOE)	**43.18**	49.95	72.40	**44.02**	75.73

Revenue from oil and gas sales decreased by $118,193,000 in the first nine months of 2015 or 44 percent compared to 2014. This decrease was primarily due to a 43 percent decrease in commodity prices on a per BOE basis.

The quarter over quarter decrease in oil and gas sales of $5,761,000 or 10 percent was primarily due to decreased crude oil prices.

The Company's product split on a revenue basis for 2015 is approximately 89 percent weighted towards crude oil and NGLs.

Royalties

($ 000s)	Three months ended September 30, 2015	June 30, 2015	September 30, 2014	Nine months ended September 30, 2015	September 30, 2014
Crown royalties	**2,398**	1,664	6,045	**6,106**	18,758
Freehold, gross overriding and other royalties	**1,301**	1,570	3,662	**4,315**	12,072
Total royalties	**3,699**	3,234	9,707	**10,421**	30,830
Crown royalties - percentage of revenue	**4.6**	2.9	6.8	**4.0**	6.9
Freehold, gross overriding and other royalties - percentage of revenue	**2.5**	2.7	4.1	**2.8**	4.5
Royalties – percentage of revenue	**7.1**	5.6	10.9	**6.8**	11.4
Royalties $ per BOE	**3.06**	2.79	7.90	**3.01**	8.62

Royalties paid by the Company consist of crown royalties paid to the Provinces of Alberta, Saskatchewan and British Columbia and non-crown royalties. Royalties on a per BOE basis decreased by $5.61 per BOE for the first nine months of 2015 compared to the same period a year ago, primarily due to lower commodity prices. On a percentage of revenue basis royalty rates decreased due to lower crown royalty rates as a result of decreased commodity prices and less production from freehold properties, which are generally subject to higher royalty rates compared to crown royalty rates.

Quarter over quarter royalties on a per BOE basis increased primarily due to a 48 percent increase in the Alberta crude oil crown reference price which is a forecasted price used to calculate their oil royalty rates. Royalties per boe were partially offset by a decrease in non-crown royalties due to lower oil prices in the third quarter.

Production Costs

($ 000s except $ per BOE)	Three months ended September 30, 2015	June 30, 2015	September 30, 2014	Nine months ended September 30, 2015	September 30, 2014
Production costs	**14,570**	13,923	18,643	**41,593**	51,362
$ per BOE	**12.06**	12.01	15.17	**12.00**	14.37

Production costs on a per BOE basis for the first nine months of 2015 decreased 16 percent from the comparable period in 2014. Production costs on a per BOE basis have primarily decreased as a result of further field optimizations leading to reduced well maintenance, more efficient produced water handling and decreased chemical costs. Production costs also decreased due to a reduction in rates charged by service companies and lower freehold mineral taxes due to lower commodity prices. These savings were partially offset by the production costs of the Pembina Assets that currently have higher operating costs due to the low production from individual vertical wells and a water flood program. The higher costs per BOE in this area are expected to drop as Bonterra gains efficiencies from reduced trucking, water flood support, lower operating labour costs and more importantly adding new production in the area from its undrilled locations.

Quarter over quarter on a per BOE basis, production costs remained relatively unchanged.

Other Income

($ 000s)	Three months ended September 30, 2015	June 30, 2015	September 30, 2014	Nine months ended September 30, 2015	September 30, 2014
Investment income	**45**	69	11	**210**	44
Administrative income	**16**	17	54	**62**	260
Gain on sale of properties	**-**	-	-	**-**	671
Realized gain on investments	**-**	-	933	**-**	1,102
	61	86	998	**272**	2,077

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 $7,852,000 at September 30, 2015 (December 31, 2014 - $7,966,000). The carrying value remained relatively unchanged due to the $12,221,000 of investments purchased by the Company during the first nine months of 2015. This was partially offset by a decrease in market value of $4,067,000 through other comprehensive loss and investments sold in the period for proceeds of $6,883,000, resulting in a gain on sale of $1,546,000 which was recorded as an equity transfer between accumulated other comprehensive income and retained earnings and not recorded in profit and loss. This was due to the Company early adopting IFRS 9 “Financial Instruments” (see Financial Reporting Update).

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

General and Administration (G&A) Expense

($ 000s except $ per BOE)	Three months ended September 30, 2015	June 30, 2015	September 30, 2014	Nine months ended September 30, 2015	September 30, 2014
Employee compensation expense	**912**	1,070	1,805	**2,694**	5,712
Office and administration expense	**1,007**	697	795	**2,636**	2,682
Total G&A expense	**1,919**	1,767	2,600	**5,330**	8,394
$ per BOE	**1.59**	1.52	2.12	**1.54**	2.35

The decrease in employee compensation expense of $3,018,000 for 2015 compared to 2014 is primarily due to a decrease in accrued bonuses that resulted from lower net earnings before income taxes. The quarter over quarter decrease is primarily due to a decrease in accrued bonuses that resulted from decreased net earnings before income taxes primarily as a result of further weakening of crude oil commodity prices in the third quarter. 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.

Office and administration expense for 2015 compared to 2014 remained relatively unchanged. The increase quarter over quarter relates primarily to an increase in the allowance for doubtful accounts and continuous disclosure costs. This was partially offset by a decrease in software costs.

Finance Costs

($ 000s except $ per BOE)	Three months ended **September 30, 2015**	June 30, 2015	September 30, 2014	Nine months ended **September 30, 2015**	September 30, 2014
Interest on long-term debt	**2,948**	3,018	965	**7,146**	3,062
Other interest	**291**	1,025	498	**1,679**	1,210
Interest expense	**3,239**	4,043	1,463	**8,825**	4,272
$ per BOE	**2.68**	3.49	1.19	**2.55**	1.19
Unwinding of the discounted value of decommissioning liabilities	**504**	469	380	**1,364**	973
Total finance costs	**3,743**	4,512	1,843	**10,189**	5,245

Interest on long-term debt increased $4,084,000 in 2015 compared to the same period in 2014 as the Company increased the bank debt outstanding by $181,140,000 from the end of 2014. The bank debt increase was incurred in the second quarter to finance the Acquisition. The Company's bank interest rate increased in the second and third quarter due to a higher net debt to cash flow ratio. Interest rates are determined by net debt to cash flow ratio on a trailing quarterly basis.

Other interest relates to amounts paid to related party (see related party transactions) and a $25,000,000 subordinated promissory note from a private investor and a one-time interest charge of $694,000 paid to the vendor for the Acquisition for the period January 1, 2015 to April 15, 2015.

A one percent increase (decrease) in the Canadian prime rate would decrease (increase) both annual net earnings and comprehensive income by approximately $2,539,000.

Share-Option Compensation

($ 000s)	Three months ended **September 30, 2015**	June 30, 2015	September 30, 2014	Nine months ended **September 30, 2015**	September 30, 2014
Share-option compensation	**958**	997	838	**2,720**	1,778

Share-option compensation is 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-option compensation increased by $942,000 from the same period a year ago due to the Company granting the majority of its options in the first quarter of 2015 compared to the second and third quarters during 2014.

On October 2, 2015 the Company granted 807,000 stock options to employees, directors and consultants with an exercise price of $20.46, based on the market price immediately preceding the date of grant. The options vest in one year from the grant date and expire on September 30, 2017.

Based on the outstanding options as of September 30, 2015, the Company has an unamortized expense of $3,655,000, of which $851,000 will be recorded for the remainder of 2015; $2,313,000 for 2016; $487,000 for 2017; and $4,000 for 2018. For more information about options issued and outstanding, refer to Note 10 of the September 30, 2015 condensed financial statements.

Depletion and Depreciation, Exploration and Evaluation and Goodwill

	Three months ended			Nine months ended	
($ 000s)	**September 30, 2015**	June 30, 2015	September 30, 2014	**September 30, 2015**	September 30, 2014
Depletion and depreciation	**26,586**	24,898	28,119	**75,375**	79,722
Exploration and evaluation	**-**	-	-	**-**	28

Provision for depletion and depreciation for the first nine months of 2015 decreased by $4,347,000 compared to the same period a year ago. The decrease in depletion and depreciation is primarily due to a decrease in production volumes and a lower decline rate associated with the capital costs on the Pembina Assets. The quarter over quarter increase in the provision was primarily due to an increase in production volumes and an increase in capital costs due to the capital spent on 8 gross (7.9 net) new wells that were placed on production in June and July.

Exploration and evaluation expense related to expired leases.

There were no impairment provisions recorded for the nine month period ended September 30, 2015 or September 30, 2014.

Taxes

Applying the statute income tax rate of 25.67 percent in effect for the first nine months of 2015, the expected income tax provision would have been $1,850,000 on net earnings before income taxes. The higher than expected income tax provision of $12,172,000 (2014 - $23,834,000) for the first nine months of 2015 is primarily due to the two percent increase in the Alberta provincial tax rate that came into effect July 1, 2015, which increased the Company's deferred tax liability by approximately $8,490,000, resulting in a net loss for the first nine months of 2015.

For additional information regarding income taxes, see Note 9 of the September 30, 2015 condensed financial statements.

Net Earnings (Loss)

	Three months ended			Nine months ended	
($ 000s except $ per share)	**September 30, 2015**	June 30, 2015	September 30, 2014	**September 30, 2015**	September 30, 2014
Net earnings (loss)	**(321)**	(2,711)	20,983	**(4,967)**	71,638
$ per share – basic	**(0.01)**	(0.08)	0.65	**(0.15)**	2.24
$ per share – diluted	**(0.01)**	(0.08)	0.65	**(0.15)**	2.23

Net earnings in 2015 decreased by $76,605,000 compared to the same period in 2014. Decreased net earnings resulted primarily from decreased commodity prices, which was partially offset by a decrease in royalties, production costs, general and administration costs and deferred income tax expense.

The quarter over quarter decrease in net loss was mainly due to a lower deferred tax provision, partially offset by decreased crude oil prices.

Other Comprehensive Income (Loss)

Other comprehensive income for 2015 consists of an unrealized loss before tax on investments (including investment in a related party) of $5,451,000 relating to a decrease in the investments' fair value (September 30, 2014 – unrealized gain of $2,609,000). Realized gains decrease accumulated other comprehensive income as these gains are transferred to retained earnings. Other comprehensive income varies from net earnings by unrealized changes in the fair value of Bonterra's holdings of investments including the investment in related party, net of tax.

Cash Flow from Operations

	Three months ended			Nine months ended	
	September 30,	June 30,	September 30,	**September 30,**	September 30,
($ 000s except $ per share)	**2015**	2015	2014	**2015**	2014
Cash flow from operations	**36,024**	17,960	65,705	**80,063**	171,888
$ per share – basic	**1.09**	0.56	2.05	**2.47**	5.38
$ per share – diluted	**1.09**	0.56	2.03	**2.47**	5.35

For the first nine months of 2015, cash flow from operations decreased by $91,825,000 compared to the same period a year ago. This was primarily due to a decrease in oil and gas sales, which were partially offset by a decrease in royalties and production costs. The quarter over quarter increase of $18,064,000 was primarily due to an increase in non-cash working capital, which was partially offset by a decrease in oil and gas sales. Third quarter cash flow would have been $28,835,000 compared to $35,860,000 for the second quarter of 2015, if the temporary effect of changes in non-cash working capital on operating activities had been excluded.

Related Party Transactions

Bonterra holds 1,034,523 (December 31, 2014 – 1,034,523) common shares in Pine Cliff Energy Ltd ("Pine Cliff") which represents less than one percent ownership in Pine Cliff's outstanding common shares. Pine Cliff's common shares had a fair market value as of September 30, 2015 of $1,117,000 (December 31, 2014 of $1,738,000). Pine Cliff paid a management fee to the Company of $45,000 (September 30, 2014 - $45,000) plus the reimbursement of certain administrative expenses. Services provided by the Company include executive services, oil and gas administration and office administration. All services performed are charged at estimated fair value. As at September 30, 2015, the Company had an account receivable from Pine Cliff of $199,000 (December 31, 2014 – $316,000).

As at September 30, 2015, the Company's CEO, Chairman of the Board and major shareholder has a loan with the Company of $12,000,000 (December 31, 2014 - $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 nine months of 2015 was $198,000 (September 30, 2014 - $213,000). This loan results in a substantial benefit to Bonterra as the interest paid is lower than bank interest.

Liquidity and Capital Resources

Net Debt to Cash Flow from Operations

Bonterra continues to focus on monitoring and managing its cash flow, capital expenditures and dividend payments. The Company chose not 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 as its ratio at the end of the third quarter was 2.8 to 1 times. The increase in net debt to cash flow is primarily due to the closing of the Acquisition on April 15, 2015 and low commodity prices realized in 2015 compared to 2014. To manage its bank debt Bonterra significantly reduced planned capital expenditures for 2015 compared to 2014 and reduced the monthly dividend payments by 50 percent beginning with the February 2015 payment. In addition the Company raised equity by way of a private placement of approximately $31 million. With the current commodity price environment the Company will be assessing its net debt to cash flow guidance and capital expenditures for the remainder of 2015 and into 2016 on a continuous basis.

Working Capital Deficiency

($ 000s)	**September 30, 2015**	December 31, 2014	September 30, 2014
Working capital deficiency	**29,080**	53,642	55,047
Long-term bank debt	**335,863**	154,723	140,339
Net debt	**364,943**	208,365	195,386

The Company has sufficient availability on its credit facility to repay both the related party loan and the subordinated promissory note if required. The Company manages the working capital position during each quarter by monitoring capital spending and dividends paid compared to cash flow from operations.

Net Debt and Working Capital

Net debt is a combination of long-term bank debt and working capital. Net debt increased compared to the same period in 2014. This was primarily attributable to decreased cash flow from lower field netbacks and the Acquisition, partially offset by decreased capital spending and reducing the monthly dividend from $0.30 per share to $0.15 per share that commenced with the February 2015 dividend.

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. Included in the working capital deficiency is $37 million of debt relating to the subordinated promissory note and the amount due to related party. The Company has sufficient room on its credit facility to repay these loans if required.

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

Capital Expenditures

During the nine months ended September 30, 2015, the Company incurred development capital costs of $50,114,000 (September 30, 2014 - $133,907,000) net of proceeds on disposal of property, plant and equipment. The costs relate primarily to the drilling of 17 gross (15.2 net) Cardium operated horizontal wells, completing and tying-in 6 gross (5.9 net) Cardium operated wells that were drilled in 2014, and upgrading facilities and gathering systems. The Company also incurred $170,430,000 in capital costs for the Acquisition.

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 September 30, 2015, the Company has bank facilities consisting of a $375,000,000 (December 31, 2014 - $220,000,000) syndicated revolving credit facility and a $50,000,000 (December 31, 2014 - $30,000,000) non-syndicated revolving credit facility. Amounts drawn under these credit facilities at September 30, 2015 totaled $335,863,000 (December 31, 2014 - $154,723,000). The interest rates on the outstanding debt as of September 30, 2015 were 4.4 percent and 3.8 percent on the Company's Canadian prime rate loan and Banker's Acceptances, respectively. The loan is revolving to April 29, 2016 with a maturity date of April 30, 2017 and is subject to annual review. The credit facilities have no fixed terms of repayment. Subsequent to September 30, 2015 the syndicate of lenders (the "Lenders") confirmed the total current facilities of $425,000,000 have been maintained.

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 7 of the September 30, 2015 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.

Issued and fully paid – common shares	**Number**	**Amount ($ 000s)**
Balance December 31, 2014	**32,169,623**	**728,934**
Share issuance, private placement	**973,812**	**31,162**
Share issue costs, net of tax		**(76)**
Balance, September 30, 2015	**33,143,435**	**760,020**

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 3,314,344 (December 31, 2014 – 3,216,962) 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 September 30, 2015 condensed financial statements.

On July 8, 2015, the Company closed a private placement of 973,812 common shares to existing shareholders at a price of $32.00 per share, for aggregate proceeds of approximately $31,162,000. The Company incurred share issue costs of approximately $105,000 in respect of the offering.

Dividend Policy

For the nine months ended September 30, 2015, Bonterra paid dividends of $48,693,000 ($1.50 per share) compared to $84,054,000 ($2.64 per share) in 2014. Bonterra's dividend policy is regularly monitored and is dependent upon production, commodity prices, cash flow 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 exercise 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 61 percent for the nine months ended September 30, 2015 (49 percent for the nine months ended September 30, 2014).

Quarterly Financial Information

For the periods ended ($ 000s except $ per share)	**2015**			2014			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue – oil and gas sales	**52,160**	57,921	42,480	68,940	88,959	99,274	82,521
Cash flow from operations	**36,024**	17,960	26,079	50,465	65,705	57,089	49,094
Net earnings (loss)	**(321)**	(2,711)	(1,935)	(32,877)	20,983	27,614	23,041
Per share – basic	**(0.01)**	(0.08)	(0.06)	(1.04)	0.65	0.87	0.73
Per share – diluted	**(0.01)**	(0.08)	(0.06)	(1.03)	0.65	0.86	0.73

For the periods ended ($ 000s except $ per share)	2013			
	Q4	Q3	Q2	Q1
Revenue – oil and gas sales	70,917	78,946	79,344	66,468
Cash flow from operations	47,772	43,953	41,445	40,726
Net earnings	15,254	19,690	15,119	12,695
Per share – basic	0.50	0.63	0.49	0.46
Per share – diluted	0.49	0.63	0.49	0.46

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 and production costs. For the first three quarters of 2015, net earnings and cash flow are lower than prior periods due to a significant decrease in commodity prices, other than Q4 2014 net earnings which was lower due to the Company's tax agreement with CRA.

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

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures as defined in National Instrument 52-109 of the Canadian Securities Administrators, to provide reasonable assurance that: (i) material information relating to the Company is made known to the CEO and the CFO by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, and other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified insecurities legislation. The CEO and CFO have evaluated the effectiveness of Bonterra's disclosure controls and procedures as at September 30, 2015 and have concluded that such disclosure and procedures are effective.

Internal Controls Over Financial Reporting

The CEO and CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting as defined in National Instrument 52-109 of the Canadian Securities Administrators, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The CEO and CFO have evaluated the effectiveness of Bonterra's internal controls over financial reporting at December 31, 2014 and have concluded that such internal controls over financial reporting are effective. There were no material changes to the Company's internal controls over financial reporting during the interim period from January 1, 2015 to September 30, 2015.

In May 2013, the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") published an updated Internal Control – Integrated Framework and related illustrative documents which supersedes the 1992 COSO Framework as of December 14, 2014. As of September 30, 2015, Bonterra was utilizing the original framework published in 1992, but is transitioning to the 2013 COSO Framework as it relates to its internal control over financial reporting.

It should be noted that while Bonterra's CEO and CFO believe that the Company's internal controls and procedures provide a reasonable level of assurance and are effective; they do not expect that these controls will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that its objectives are met.

Financial Reporting Update

As of January 1, 2015, the Company early adopted IFRS 9 in accordance with the transitional provisions of that standard. A brief description of the new accounting policy and its impact on the Company's financial statements are as follows:

IFRS 9 "Financial Instruments"

Effective January 1, 2015 the Company adopted IFRS 9 "Financial instruments". IFRS 9 replaces the sections of IAS 39 "Financial Instruments: Recognition and Measurements" that relates to the classification and measurement of financial instruments and hedge accounting.

IFRS 9 replaces the multiple classification and measurements models for financial assets with a new model that only has two measurements categories; amortized cost and fair value through profit or loss or other comprehensive income. This determination is made at initial recognition. As a result of adopting IFRS 9, the Company's accounts receivables were reclassified from loans and receivables at amortized cost to financial assets at amortized cost. For financial liabilities, the new standard retains most of the IAS 39 requirements. The main change arises in cases where the Company chooses to designate a financial liability as fair value through net earnings. In these situations, the portion of the fair value change related to the Company's own credit risk is recognized in other comprehensive income rather than net earnings. The Company has no financial liabilities that are measured at fair value through net earnings.

The classification of the Company's investments changed from available-for-sale to financial assets measured at fair value. On the day an investment is acquired the Company can make an irrevocable election (on an instrument by instrument basis) to designate investments in equity instruments as at fair value through other comprehensive income (FVTOCI), provided those investments are not classified as held for trading. The Company's investments will be measured at fair value, with gains or losses arising from changes in fair value recognized in other comprehensive income and accumulated in the fair value instrument. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the investments. The Company has designated all of its investments and its investment in a related party as FVTOCI on its initial adoption of IFRS 9.

The Company has adopted IFRS 9 on a prospective basis. After adoption, the Company's accounting policies are substantially the same as at December 31, 2014 except for the changes discussed above.

Future Accounting Pronouncements

In May 2014, the International Accounting Standards Board (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, 2018, with earlier adoption permitted. The Company has not yet assessed the impact, if any, that the new standard will have on its financial statements or whether to early adopt this new standard.

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

CONDENSED STATEMENT OF FINANCIAL POSITION

As at (unaudited) ($ 000s)	Note	September 30, 2015	December 31, 2014
Assets			
Current			
Accounts receivable		**17,484**	20,314
Crude oil inventory		**643**	1,227
Prepaid expenses		**4,753**	2,428
Investments		**6,735**	6,228
		29,615	30,197
Investment in related party		**1,117**	1,738
Exploration and evaluation assets		**8,061**	7,629
Property, plant and equipment	3, 4	**1,060,419**	901,991
Investment tax credit receivable	9	**8,834**	8,573
Goodwill		**92,810**	92,810
		1,200,856	1,042,938
Liabilities			
Current			
Accounts payable and accrued liabilities		**21,695**	31,839
Due to related party	5	**12,000**	12,000
Subordinated promissory note	6	**25,000**	40,000
		58,695	83,839
Bank debt	7	**335,863**	154,723
Decommissioning liabilities	8	**68,522**	53,792
Deferred tax liability	9	**126,983**	115,386
		590,063	407,740
Subsequent events	13		
Shareholders' equity			
Share capital	10	**760,020**	728,934
Contributed surplus		**14,215**	11,495
Accumulated other comprehensive income (loss)		**(2,273)**	3,824
Retained earnings (deficit)		**(161,169)**	(109,055)
		610,793	635,198
		1,200,856	1,042,938

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

For the periods ended September 30 (unaudited)		Three Months		Nine Months	
($ 000s, except $ per share)	Note	**2015**	2014	**2015**	2014
Revenue					
Oil and gas sales, net of royalties	11	**48,461**	79,252	**142,140**	239,924
Other income	12	**61**	998	**272**	2,077
		48,522	80,250	**142,412**	242,001
Expenses					
Production		**14,570**	18,643	**41,593**	51,362
Office and administration		**1,007**	795	**2,636**	2,682
Employee compensation		**912**	1,805	**2,694**	5,712
Finance costs		**3,743**	1,843	**10,189**	5,245
Stock-option compensation	10	**958**	838	**2,720**	1,778
Depletion and depreciation	4	**26,586**	28,119	**75,375**	79,722
Exploration and evaluation		**-**	-	**-**	28
		47,776	52,043	**135,207**	146,529
Earnings before income taxes		**746**	28,207	**7,205**	95,472
Taxes (recovery)					
Current income tax (recovery)	9	**40**	-	**(355)**	-
Deferred income tax	9	**1,027**	7,224	**12,527**	23,834
		1,067	7,224	**12,172**	23,834
Net earnings (loss) for the period		**(321)**	20,983	**(4,967)**	71,638
Other comprehensive income (loss)					
Unrealized gain (loss) on investments		**(6,851)**	(784)	**(5,451)**	2,609
Deferred taxes on unrealized (gain) loss on investments		**925**	98	**691**	(326)
Realized gain on investments transferred to net earnings		**-**	(933)	**-**	(1,102)
Deferred taxes on realized gain on investments transferred to net earnings		**-**	117	**-**	138
Other comprehensive income (loss) for the period		**(5,926)**	(1,502)	**(4,760)**	1,319
Total comprehensive income (loss) for the period		**(6,247)**	19,481	**(9,727)**	72,957
Net earnings (loss) per share - basic	10	**(0.01)**	0.65	**(0.15)**	2.24
Net earnings (loss) per share – diluted	10	**(0.01)**	0.65	**(0.15)**	2.23
Comprehensive income (loss) per share - basic	10	**(0.19)**	0.61	**(0.30)**	2.29
Comprehensive income (loss) per share – diluted	10	**(0.19)**	0.60	**(0.30)**	2.27

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF CASH FLOW

For the periods ended September 30 (unaudited)		Three Months		Nine Months	
($ 000s)	Note	**2015**	2014	**2015**	2014
Operating activities					
Net earnings (loss)		**(321)**	20,983	**(4,967)**	71,638
Items not affecting cash					
Deferred income taxes		**1,027**	7,224	**12,527**	23,834
Share-option compensation		**958**	838	**2,720**	1,778
Depletion and depreciation		**26,586**	28,119	**75,375**	79,722
Exploration and evaluation		**-**	-	**-**	28
Unwinding of the discount on decommissioning liabilities		**504**	380	**1,364**	973
Gain on sale of properties		**-**	-	**-**	(671)
Gain on sale of investments		**-**	(933)	**-**	(1,102)
Investment income		**(45)**	(11)	**(210)**	(44)
Interest expense		**3,239**	1,463	**8,825**	4,272
Change in non-cash working capital accounts:					
Accounts receivable		**6,813**	7,803	**1,027**	(1,907)
Crude oil inventory		**88**	(339)	**401**	(206)
Prepaid expenses		**(436)**	1,478	**(2,325)**	(1,411)
Investment tax credit receivable		**-**	-	**(261)**	-
Accounts payable and accrued liabilities		**724**	448	**(5,446)**	315
Decommissioning expenditures		**126**	(285)	**(142)**	(1,059)
Interest paid		**(3,239)**	(1,463)	**(8,825)**	(4,272)
Cash provided by operating activities		**36,024**	65,705	**80,063**	171,888
Financing activities					
Increase (decrease) in bank debt		**(25,567)**	(10,806)	**181,140**	(16,425)
Subordinated promissory note		**(10,000)**	-	**(15,000)**	15,000
Issuance of common shares by private placement		**31,162**	-	**31,162**	-
Share issue costs		**(105)**	-	**(105)**	-
Stock option proceeds		**-**	6,608	**-**	37,911
Dividends		**(14,915)**	(28,874)	**(48,693)**	(84,054)
Cash provided by (used in) financing activities		**(19,425)**	(33,072)	**148,504**	(47,568)
Investing activities					
Investment income received		**45**	11	**210**	44
Exploration and evaluation expenditures		**-**	(327)	**(432)**	(327)
Property, plant and equipment expenditures		**(14,402)**	(40,878)	**(49,682)**	(134,732)
Proceeds on sale of properties		**-**	-	**-**	1,152
Purchase of investments		**-**	-	**(12,221)**	-
Proceeds on sale of investments		**-**	1,094	**6,883**	1,539
Acquisition	3	**-**	-	**(170,430)**	-
Change in non-cash working capital accounts:					
Accounts payable and accrued liabilities		**(3,068)**	8,415	**(4,698)**	9,333
Accounts receivable		**826**	(948)	**1,803**	(1,329)
Cash used in investing activities		**(16,599)**	(32,633)	**(228,567)**	(124,320)
Net change in cash in the period		**-**	-	**-**	-
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, 2014	31,322,171	685,898	12,791	3,761	(34,809)	667,641
Share-option compensation			1,778			1,778
Share issuance	18,000	1,104				1,104
Exercise of options	829,452	37,911				37,911
Transfer to share capital on exercise of options		4,021	(4,021)			-
Comprehensive income				1,319	71,638	72,957
Dividends					(84,054)	(84,054)
September 30, 2014	32,169,623	728,934	10,548	5,080	(47,225)	697,337
Share-option compensation			947			947
Comprehensive loss				(1,256)	(32,877)	(34,133)
Dividends					(28,953)	(28,953)
December 31, 2014	32,169,623	728,934	11,495	3,824	(109,055)	635,198
Share-option compensation			2,720			2,720
Share issuance, private placement	973,812	31,162				31,162
Share issue costs, net of tax		(76)				(76)
Comprehensive loss				(4,760)	(4,967)	(9,727)
Transfer of realized gain on investments				(1,546)	1,546	-
Deferred taxes on realized gain on investments				209		209
Dividends					(48,693)	(48,693)
September 30, 2015	33,143,435	760,020	14,215	(2,273)	(161,169)	610,793

(1) Contributed surplus includes all amounts related to share-based payments
(2) Accumulated other comprehensive income comprises of unrealized gains and losses on available-for-sale investments

See accompanying notes to these condensed financial statements.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

As at September 30, 2015 and December 31, 2014 and for the three and nine months ended September 30, 2015 and September 30, 2014 (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 November 12, 2015.

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 2014 audited annual financial statements, except as stated 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 2014 audited annual financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

b) Adopted Accounting Pronouncements

As of January 1, 2015, the Company adopted the following new accounting pronouncement, in accordance with the transitional provision of the standard. A brief description of the new accounting policy and its impact on the Company's financial statements is as follows:

IFRS 9 "Financial instruments"

Effective January 1, 2015 the Company adopted IFRS 9 "Financial instruments". IFRS 9 replaces the sections of IAS 39 "Financial Instruments: Recognition and Measurements" that relates to the classification and measurement of financial instruments and hedge accounting.

IFRS 9 replaces the multiple classification and measurements models for financial assets with a new model that only has two measurements categories; amortized cost and fair value through profit or loss or other comprehensive income. This determination is made at initial recognition. As a result of adopting IFRS 9, the Company's accounts receivables were reclassified from loans and receivables at amortized cost to financial assets at amortized cost. For financial liabilities, the new standard retains most of the IAS 39 requirements. The main change arises in cases where the Company chooses to designate a financial liability as fair value through net earnings. In these situations, the portion of the fair value change related to the Company's own credit risk is recognized in other comprehensive income rather than net earnings. The Company has no financial liabilities that are measured at fair value through net earnings.

The classification of the Company's investments changed from available-for-sale to financial assets measured at fair value. On the day an investment is acquired the Company can make an irrevocable election (on an instrument by instrument basis) to designate investments in equity instruments as at fair value through other comprehensive income (FVTOCI), provided those investments are not classified as held for trading. The Company's investments will be measured at FVTOCI, with gains or losses arising from changes in fair value recognized in other comprehensive income and accumulated in the fair value instrument. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the investments. The Company has designated all of its investments and its investment in a related party as FVTOCI on its initial adoption of IFRS 9.

The Company has adopted IFRS 9 on a prospective basis. After adoption, the Company's accounting policies are substantially the same as at December 31, 2014 except for the changes discussed above.

c) 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, 2018, 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.

3. ACQUISITION

On April 15, 2015, the Company acquired certain Cardium focused oil and gas assets in the Pembina area of Alberta, including upper zones (the "Pembina Assets") for cash consideration of $170,430,000. The results of the Pembina Assets have been included in these financial statements since that date. The Pembina Assets contributed oil and gas sales, net of royalties, of $14,665,000 and operating expenses of $6,766,000 for the period from April 15, 2015 to September 30, 2015. If the acquisition had occurred on January 1, 2015, total oil and gas sales, net of royalties, would have been approximately $22,154,000 and the total production costs would have been approximately $11,076,000 for the nine months ended September 30, 2015.

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

Net assets acquired:	($ 000s)
Property, plant and equipment	173,111
Decommissioning liabilities	(2,681)
Total	170,430

Consideration:	
Cash	170,430
Total purchase price	170,430

4. PROPERTY, PLANT AND EQUIPMENT

Cost ($ 000s)	Oil and gas properties	Production facilities	Furniture, fixtures & other equipment	Total property, plant & equipment
Balance at December 31, 2014	**1,028,520**	**252,521**	**1,987**	**1,283,028**
Additions	35,928	13,692	62	49,682
Acquistion	138,711	34,400	-	173,111
Adjustment to decomissioning liabilities	10,827	-	-	10,827
Balance at September 30, 2015	**1,213,986**	**300,613**	**2,049**	**1,516,648**

Accumulated Depletion and Depreciation ($ 000s)	Oil and gas properties	Production facilities	Furniture, fixtures & other equipment	Total property, plant & equipment
Balance at December 31, 2014	**(305,742)**	**(73,866)**	**(1,429)**	**(381,037)**
Depletion and depreciation	(63,555)	(11,745)	(75)	(75,375)
Disposal and other	183	-	-	183
Balance at September 30, 2015	**(369,114)**	**(85,611)**	**(1,504)**	**(456,229)**

Carrying amounts as at: **($ 000s)**				
December 31, 2014	722,778	178,655	558	901,991
September 30, 2015	**844,872**	**215,002**	**545**	**1,060,419**

Impairment test of E&E, property, plant and equipment and goodwill

The recoverable amount of E&E, property, plant and equipment, and goodwill is determined based on the fair value less costs of disposal using a discounted cash flow model and is assessed at the cash generating unit ("CGU") level. The period the Company used to project cash flows is approximately 50 years or the CGUs reserve life. Growth in cash flow from a single well would be determined based on the extent of total reserves assigned, which is produced at declining rates over the estimated reserve life. The fair value measurement of the Company's E&E, property, plant and equipment, and goodwill is designated Level 2 on the fair value hierarchy.

The following table from external sources outlines the forecast benchmark commodity prices used in the impairment calculation as at September 30, 2015. Forecast benchmark commodity prices tend to be stable because short-term increases or decreases in prices are not considered indicative of long-term price levels, but nonetheless subject to change and the change could be material. The Company uses a pre-tax discount rate of 10 percent that reflects risks specific to the assets for which the future cash flow estimates have not been adjusted. The discount rate was determined based on the Company's assessment of risk based on past experience.

Bonterra Key Assumptions for Impairment

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025[2]
WTI Crude oil $US/Bbl [1]	55.00	70.00	75.00	80.00	81.20	82.42	83.65	84.91	86.18	87.48
AECO C-Spot $Mmbtu [1]	3.10	3.32	3.91	4.49	4.79	4.87	4.96	5.04	5.13	5.22
Exchange rate US$/$Cdn	0.78	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85

[1] The forecast benchmark commodity prices listed above are adjusted for quality differentials, heat content, transportation and marketing costs and other factors specific to the Company's operations in performing the Company's impairment tests.

[2] Forecast benchmarks commodity prices are assumed to increase by 1.5% in each year after 2025 to end of the reserve life.

With the current key assumptions listed above, the Company performed an impairment test and concluded that no reasonable change in the key assumptions would result in an impairment being recorded. For the three and nine months ended September 30, 2015 and 2014 no impairment losses or reversals were recorded in the statement of comprehensive income (loss).

5. TRANSACTIONS WITH RELATED PARTIES

As at September 30, 2015, the Company's CEO, Chairman of the Board and major shareholder has a loan with the Company of $12,000,000 (December 31, 2014 - $12,000,000). The loan bears interest at Canadian chartered bank prime less 5/8th of a percent and has no set repayment terms but is payable on demand. Security under the debenture is over all of the Company's assets and is subordinated to any and all claims in favour of the syndicate of senior lenders providing credit facilities to the Company. The loan can only be repaid should the Company have sufficient available borrowing limits under the Company's credit facility. Interest paid on this loan during the first nine months of 2015 was $198,000 (September 30, 2014 - $213,000).

The Company received a management fee of $45,000 plus the reimbursement of certain administrative expenses for the nine months ended September 30, 2015 (September 30, 2014 - $45,000) for management services and office administration from Pine Cliff Energy Ltd. ("Pine Cliff"). This fee has been included in other income. As at September 30, 2015, the Company had an account receivable from Pine Cliff for these management fees and the reimbursement of certain administration expense of $199,000 (December 31, 2014 - $316,000).

6. SUBORDINATED PROMISSORY NOTE

As at September 30, 2015, Bonterra borrowed $25,000,000 (December 31, 2014 - $40,000,000) 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 of $55,000,000 over all of the Company's assets and is subordinated to any and all claims in favor of the syndicate of senior lenders providing credit facilities to the Company. Interest paid on the subordinated promissory note during the first nine months was $785,000 (September 30, 2014 - $873,000).

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.

7. BANK DEBT

As at September 30, 2015, the Company has bank facilities consisting of a $375,000,000 (December 31, 2014 - $220,000,000) syndicated revolving credit facility and a $50,000,000 (December 31, 2014 - $30,000,000) non-syndicated revolving credit facility, for total credit facilities of $425,000,000. Amounts drawn under the credit facilities at September 30, 2015 were $335,863,000 (December 31, 2014 - $154,723,000). Amounts borrowed under the credit facilities bear interest at a floating rate based on the applicable Canadian prime rate or Banker's Acceptance rate, plus between 0.75 percent and 3.50 percent, depending on the type of borrowing and the Company's consolidated total funded debt to consolidated cash flow. The terms of the revolving credit facilities provided that the loan is revolving to April 29, 2016, with a maturity date of April 30, 2017 and is subject to annual review. The credit facilities have no fixed terms of repayment.

The available lending limits of the credit facilities are reviewed semi-annually on or before April 30 and October 31 each year based on the lender's interpretation of the Company's reserves, future commodity prices and costs. Subsequent to September 30, 2015 the lenders confirmed the total current facilities of $425,000,000 have been maintained.

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 September 30, 2015 (December 31, 2014 - $700,000). On October 9, 2015 the Company issued an additional letter of credit for $1,250,000. Security for credit facilities consists of various and floating demand debentures totaling $750,000,000 (December 31, 2014 - $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 credit facilities:

- The Company cannot exceed $425,000,000 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 available cash flow for the preceding four fiscal quarters divided by four, which is calculated as 47 percent for the current quarter.

Available cash flow is defined to be cash provided by operating activities excluding the change in non-cash working capital and decommissioning liabilities settled and including investment income received and all net proceeds of dispositions included in cash used in investing activities. At September 30, 2015, the Company is in compliance with all covenants.

8. DECOMMISSIONING LIABILITIES

At September 30, 2015, the estimated total undiscounted amount required to settle the decommissioning liabilities was $231,286,000 (December 31, 2014- $177,441,000). The provision has been calculated assuming a 1.5 percent inflation rate (December 31, 2014 – 1.5 percent inflation rate). These obligations will be settled at the end of the useful lives of the underlying assets, which extend up to 50 years into the future. This amount has been discounted using a risk-free interest rate of 3.0 percent (December 31, 2014 – 2.9 percent).

Changes to decommissioning liabilities were as follows:

($ 000s)	**September 30, 2015**	December 31, 2014
Decommissioning liabilities, January 1	**53,792**	37,362
Acquisition (Note 3)	**2,681**	-
Adjustment to decommissioning liabilities[1]	**10,827**	16,721
Liabilities settled during the year	**(142)**	(1,652)
Unwinding of the discount on of decommissioning liabilities	**1,364**	1,361
Decommissioning liabilities, end of period	**68,522**	53,792

[1] Adjustment to decommissioning liabilities is due to a change in the discount rate and estimates.

9. INCOME TAXES

($ 000s)	**September 30, 2015**	December 31, 2014
Deferred tax asset (liability) related to:		
Investments	**334**	(566)
Exploration and evaluation assets and property, plant and equipment	**(145,910)**	(126,199)
Investment tax credits	**(2,385)**	(3,808)
Decommissioning liabilities	**18,500**	13,459
Corporate tax losses carried forward	**1,605**	-
Share issue costs	**873**	1,162
Corporate capital tax losses carried forward	**9,090**	8,617
Unrecorded benefit of capital tax losses carried forward	**(9,090)**	(8,051)
Deferred tax asset (liability)	**(126,983)**	(115,386)

Income tax expense varies from the amounts that would be computed by applying Canadian federal and provincial income tax rates as follows:

($ 000s)	Three Months **September 30, 2015**	 September 30, 2014	Nine Months **September 30, 2015**	 September 30, 2014
Earnings before taxes	**746**	28,207	**7,205**	95,472
Combined federal and provincial income tax rates	**27.00%**	25.02%	**25.67%**	25.02%
Income tax provision calculated using statutory tax rates	**201**	7,057	**1,850**	23,887
Increase (decrease) in taxes resulting from:				
Change in statutory tax rates [1]	**-**	-	**8,490**	-
Stock-option compensation	**259**	210	**698**	445
Realized gain on sale of investments	**-**	117	**209**	138
Change in estimates and other	**607**	(160)	**925**	(636)
Income tax expense	**1,067**	7,224	**12,172**	23,834

(1) Effective July 1, 2015 the combined federal and provincial income tax rate for Bonterra is approximately 27.00% due to a two percent increase in the provincial tax rate for Alberta, Canada.

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	118,005
Eligible capital expenditures	7	2,460
Share issue costs	20	3,234
Canadian oil and gas property expenditures	10	183,886
Canadian development expenditures	30	213,847
Canadian exploration expenditures	100	8,063
Income tax losses carried forward [1]	100	5,943
		535,438

(1) Income tax losses carried forward expire in 2035.

The Company has $8,834,000 (December 31, 2014 - $8,573,000) of investment tax credits that expire in the following years; 2021 - $1,824,000; 2022 - $1,735,000; 2023 - $1,097,000; 2024 - $1,241,000; 2025 - $1,323,000; 2026 - $1,105,000; 2027 - $410,000; and 2035 - $99,000.

The Company has $67,335,000 (December 31, 2014 - $68,881,000) of capital losses carried forward which can only be claimed against taxable capital gains.

10. SHAREHOLDERS' EQUITY

Authorized

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

Issued and fully paid – common shares	**Number**	**Amount ($ 000s)**
Balance December 31, 2014	**32,169,623**	**728,934**
Share issuance, private placement	**973,812**	**31,162**
Share issue costs, net of tax		**(76)**
Balance, September 30, 2015	**33,143,435**	**760,020**

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.

On July 8, 2015, the Company closed a private placement of 973,812 common shares to existing shareholders at a price of $32.00 per share, for aggregate proceeds of approximately $31,162,000. The Company incurred issue costs of approximately $105,000 in respect of the offering.

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

	Three Months		Nine Months	
	September 30, 2015	September 30, 2014	**September 30, 2015**	September 30, 2014
Basic shares outstanding	**33,069,341**	32,087,419	**32,472,825**	31,921,177
Dilutive effect of share options [(1)]	**-**	230,733	**-**	188,504
Diluted shares outstanding	**33,069,341**	32,318,152	**32,472,825**	32,109,681

(1) The Company did not include 2,458,000 share options for the three months ended September 30, 2015 (September 30, 2014 – 857,000) and 2,458,000 share options for the nine months ended September 30, 2015 (September 30, 2014 – 1,009,000) in the dilutive effect of share options calculation as these share options were anti-dilutive.

For the three months ended September 30, 2015, the Company declared and paid dividends of $14,915,000 ($0.45 per share) (September 30, 2014 - $28,874,000 ($0.90 per share)). For the nine months ended September 30, 2015, the Company declared and paid dividends of $48,693,000 ($1.50 per share) (September 30, 2014 - $84,054,000 ($2.64 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 3,314,344 (December 31, 2014 – 3,216,962) common shares. The exercise price of each option granted cannot be lower than the market price of the common shares on the date of grant and the option's maximum term is five years.

A summary of the status of the Company's stock option plan as of September 30, 2015, and changes during the period ended on those dates is presented below:

	Number of options	**Weighted average exercise price**
At December 31, 2014	2,111,500	$54.94
Options granted	965,500	34.57
Options expired	(619,000)	50.89
At September 30, 2015	2,458,000	$47.96

The following table summarizes information about options outstanding at September 30, 2015:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number outstanding at September 30, 2015	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at September 30, 2015	Weighted-average exercise price
$ 30.00 – $ 40.00	965,500	2.0 years	$34.57	-	$ -
40.01 – 50.00	269,000	0.4 years	46.03	190,000	45.28
50.01 – 65.00	1,223,500	1.0 years	58.95	224,500	54.92
$ 30.00 – $ 65.00	2,458,000	1.3 years	$47.96	414,500	$50.50

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 2015, the Company granted 965,500 stock options with an estimated fair value of $3,910,000 or $4.05 per option using the Black-Scholes option pricing model with the following key assumptions:

	September 30, 2015
Weighted-average risk free interest rate (%)[1]	**0.46**
Expected life (years)	**2.0**
Weighted-average volatility (%) [2]	**29.93**
Forfeiture rate (%)	**9.93**
Weighted average dividend yield (%)	**5.21**

(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

	Three Months		Nine Months	
($ 000s)	**September 30, 2015**	September 30, 2014	**September 30, 2015**	September 30, 2014
Oil and gas sales	**52,160**	88,959	**152,561**	270,754
Less:				
Crown royalties	**(2,398)**	(6,045)	**(6,106)**	(18,758)
Freehold, gross overriding royalties and other	**(1,301)**	(3,662)	**(4,315)**	(12,072)
Oil and gas sales, net of royalties	**48,461**	79,252	**142,140**	239,924

12. OTHER INCOME

	Three Months		Nine Months	
($ 000s)	**September 30, 2015**	September 30, 2014	**September 30, 2015**	September 30, 2014
Investment income	**45**	11	**210**	44
Administrative income	**16**	54	**62**	260
Gain on sale of properties	**-**	-	**-**	671
Realized gain on investments	**-**	933	**-**	1,102
Other income	**61**	998	**272**	2,077

13. SUBSEQUENT EVENTS

i) Dividends

Subsequent to September 30, 2015, the Company declared the following dividends:

Date declared	Record date	$ per share	Date payable
October 1, 2015	October 15, 2015	0.15	October 30, 2015
November 2, 2015	November 16, 2015	0.15	November 30, 2015

ii) Options

On October 2, 2015 the Company granted 807,000 stock options to employees, directors and consultants with an exercise price of $20.46, based on the market price immediately preceding the date of grant. The options vest in one year from the grant date and expire on September 30, 2017.

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
Computershare Trust Company of Canada, Calgary, Alberta

Auditors
Deloitte LLP, Calgary, Alberta

Solicitors
Borden Ladner Gervais LLP, Calgary, Alberta

Bankers
CIBC, Calgary, Alberta
National Bank of Canada, Calgary, Alberta
J.P. Morgan, Calgary, Alberta
TD Securities, Calgary, Alberta
Alberta Treasury Branch, Calgary, Alberta

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