Q3 For the Nine Months ended September 30, 2013

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BONTERRA ENERGY REPORTS THIRD QUARTER 2013 FINANCIAL AND OPERATING RESULTS

HIGHLIGHTS

As at and for the periods ended ($ 000s except for $ per share)	Three months ended **September 30, 2013**	Three months ended September 30, 2012	Nine Months ended **September 30, 2013**	Nine Months ended September 30, 2012
FINANCIAL				
Revenue – realized oil and gas sales	**78,946**	35,204	**224,758**	103,146
Funds flow [1][5]	**46,874**	21,705	**138,215**	60,633
Per share – basic	**1.50**	1.10	**4.63**	3.07
Per share – diluted	**1.50**	1.09	**4.61**	3.06
Payout ratio	**56%**	71%	**53%**	76%
Funds flow [2][5]	**46,874**	21,705	**142,034**	60,633
Per share – basic	**1.50**	1.10	**4.76**	3.07
Per share – diluted	**1.50**	1.09	**4.74**	3.06
Payout ratio	**56%**	71%	**52%**	76%
Cash flow from operations	**43,953**	16,440	**126,124**	52,865
Per share – basic	**1.41**	0.83	**4.22**	2.68
Per share – diluted	**1.40**	0.83	**4.21**	2.67
Payout ratio	**60%**	94%	**58%**	87%
Cash dividends per share	**0.84**	0.78	**2.48**	2.34
Net earnings	**19,690**	7,746	**47,504**	27,129
Per share – basic	**0.63**	0.39	**1.59**	1.37
Per share – diluted	**0.63**	0.39	**1.59**	1.37
Capital expenditures and acquisitions, net of dispositions	**34,025**	27,360	**83,262** [4]	74,061 [3]
Total assets			**1,002,773**	412,812
Working capital deficiency			**43,681**	49,808
Long-term debt			**147,189**	128,779
Shareholders' equity			**671,528**	169,839
OPERATIONS				
Oil (barrels per day)[1]	**7,310**	4,108	**7,727**	3,912
NGLs (barrels per day)[1]	**772**	461	**762**	436
Natural gas (MCF per day)[1]	**22,274**	12,583	**21,668**	12,200
Total barrels of oil equivalent per day (BOE)[1]	**11,794**	6,666	**12,100**	6,381
Total barrels of oil equivalent per day (BOE)[2]	**11,794**	6,666	**12,508**	6,381

[1] Nine month figures for 2013 include the results of Spartan Oil Corp. (Spartan) for the period of January 25, 2013 to September 30, 2013. Production includes 249 days for Spartan and 273 days for Bonterra.
[2] Nine month figures for 2013 include the results of Spartan for the period of January 1, 2013 to September 30, 2013. Production includes 273 days for Spartan and Bonterra.
[3] Includes an acquisition that closed on June 7, 2012 for $17,108,000.
[4] 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.
[5] 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 nine months ended September 30, 2013. In addition, the Company is pleased to announce its Board of Directors has approved both a 2014 capital expenditure program budgeted at $120 million and an increase to the monthly dividend to $0.29 per share beginning with the November dividend payable December 31, 2013.

Financial and Operational Highlights

In 2013, Bonterra has maintained its focus on providing investors with continued growth on a per share basis, a sustainable pace of development and monthly income through its dividend policy. For the nine month period, Bonterra has achieved record results in net earnings, funds flow, production volumes and the monthly dividend rate despite one time charges with regard to royalties and general and administrative costs totaling approximately $4.3 million. Quarter over quarter financial results were somewhat negatively impacted by a number of factors including planned decreased production volumes, royalty adjustments relating to prior periods, lower natural gas prices, pipeline apportionments which required the Company to shut-in production and an increase in oil inventory. It should be noted the following comparatives use January 25, 2013 as the date when Spartan production commenced. Highlights include:

- Generated record funds flow in the first nine months of 2013 of $138.2 million ($4.63 per share), as compared to $60.6 million ($3.07 per share) in the same period for 2012, an increase of 128.0 percent. Third quarter funds flow was $46.9 million, a decrease of 7.3 percent over the previous quarter, mainly attributable to a reduction of production volumes of 6.6 percent (partially planned and partially for reason outlined above);

- Average daily production was 12,100 boe per day during the first nine months of 2013, an increase of 89.6 percent over the first nine months of 2012. In the third quarter of 2013, production averaged 11,794 boe per day, a decrease of 6.6 percent over the second quarter of 2013. The increased production year over year is mainly due to the Spartan acquisition and better results from the Company's 2013 Cardium drill program. The quarter over quarter decrease is mainly due to natural production declines associated with flush production on wells drilled in the first quarter. In addition, approximately 220 boe per day of production was shut-in due to plant turnarounds and other facility maintenance programs or stored in field inventory. Fourth quarter production levels are anticipated to increase as the Company will record a full quarter of production from wells drilled and tied-in during the third quarter as well as new production associated with the fourth quarter drilling program. Full year production guidance is maintained at 12,000 boe per day;

- Operating costs for the first nine months of the year were $13.00 per boe, a reduction of 18.8 percent over the same period in 2012. Quarter over quarter operating costs per boe increased 28.6 percent mainly as a result of scheduled facility and maintenance programs executed during the quarter and lower production volumes. The Company continues to anticipate annual operating costs to average $13.00 per boe for 2013 as the majority of scheduled seasonal turnarounds and maintenance programs have been completed and production volumes are anticipated to increase;

- Paid out $0.84 per share in cash dividends to shareholders in Q3 2013 and $2.48 for the nine month period. This represents a payout ratio of 53 percent of funds flow for the nine month period which is on the low end of the Company's payout ratio guidance of 50 to 65 percent of funds flow; and

- Completed a bought deal financing of 553,725 common shares at a price of $49.85 per common share for gross proceeds of $27.6 million. The funds were used to increase the 2013 capital development budget and to decrease outstanding bank debt. Bonterra's net debt to cash flow ratio at September 30, 2013 is 1.14 to 1 times providing the Company with one of the strongest balance sheets amongst its peers leading to significant financial flexibility. The Company continues to closely monitor this ratio by managing its cash

flow, capital expenditure ranges and dividend payments and expects to remain well within its targeted guidance range for 2013.

2014 Corporate Guidance

- The Board of Directors has approved a capital development program of $120 million which will include the drilling of light oil wells, infrastructure and gathering systems but excludes acquisitions. Currently 56 gross (41.05 net) wells are planned with 28 gross (27.6 net) wells targeting the company's Carnwood play in the Pembina Cardium field;

- Full year production levels are expected to average between 12,400 and 12,700 BOE per day;

- The corporate production profile is anticipated to be approximately 72 percent light oil and liquids and 28 percent natural gas (mainly solution gas);

- Operating costs are expected to be approximately $13.00 per BOE;

- Bonterra anticipates fully funding its capital expenditure program out of cash flow, proceeds from the exercise of employee stock options, sale of investments and, if required, its bank borrowing facility;

- The dividend payout ratio is estimated to range between 50 and 65 percent of funds flow in 2014. As above, Bonterra will be increasing the dividend to $0.29 per share beginning with the dividend payable on December 31, 2013. Bonterra's Board of Directors and management will continue to take into account production volumes, commodity prices and costs in determining monthly dividend amounts;

- Bonterra will continue to maintain its balance sheet strength and forecasts its net debt to annualized cash flow from operations to be within a range of 1.0 to 1.5 times; and

- Bonterra has approximately $578 million in tax pools, extending the company's estimated tax horizon to 2016.

Bonterra's capital development program may be affected by items such as drilling results, commodity prices, and industry, regulatory and economic conditions. The Board of Directors and management will regularly review the capital program during the year and will make any adjustments to the amount and targets if required. The corporate guidance for 2014 is based on estimated future crude oil and natural gas prices and as such, guidance estimates may fluctuate with changes in commodity prices. Capital expenditure guidance excludes potential acquisitions which will be separately considered and evaluated.

Well Positioned for Continued Growth in 2014

In 2013, Bonterra's focus to developing its Cardium acreage shifted to main pool development and the optimization of overall recoveries. The Company spent approximately $95.7 million on its capital development program during the nine months of the year and drilled 24 gross (23.8 net) operated Cardium horizontal wells and twelve (2.7 net) non-operated wells. The third quarter was active for the Company's drilling operations following spring break-up and included nine gross (9.0 net) operated wells and 10 gross (2.4 net) non-operated wells. Fourth quarter drilling is expected to include an additional 21 gross (9.9 net) wells which will include 6 (5.9 net) operated wells in the Carnwood area.

Bonterra's drill program in the second half of the year is concentrated in the Carnwood area in which its land position includes 38 gross (35 net) sections. The Carnwood area was historically underdeveloped with vertical wells and is characterized by high levels of original oil-in-place and low current recoveries. The Carnwood area is expected to be developed at eight horizontal wells per section which represents a drilling inventory of approximately 305 gross (280 net) locations in this one area of the Cardium alone.

Bonterra has delineated the outer edges of the Carnwood area with the 1-10-048-07 well on the western edge and the 03-34-047-05 well on the eastern edge of the area. These wells have recorded some of Bonterra's best production results to date and have produced 36,958 barrels of oil and 57,716 barrels of oil, respectively, over a nine month cumulative period. During Q3 2013, Bonterra drilled three additional wells in Carnwood of which one, the 04-34-047-05 well, is currently on production with the other two expected to be tied-in and on production in Q4 2013. This well is currently performing favourably with a 30 day rate of 300 boe per day, including 260 barrels of oil per day. With the outer edges of the Carnwood area delineated, the Company now intends to target increased well density throughout the area with a targeted pad drilling program in Q4 2013 and into 2014.

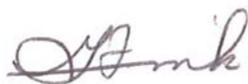
Bonterra has successfully reduced costs and improved well performance through the application of new drilling and completion technologies and efficient drill programs. The 2014 capital development program's focus in the Carnwood area signifies Bonterra's move towards a full field development exploitation strategy with four well pad drilling comprising the majority of the program. Bonterra intends to run two rigs in 2014 and will dedicate one rig solely to the Carnwood area where the average number of days to drill a well will be approximately six to nine days (24-32 days to drill a four well pad). In addition, Bonterra will shift to drilling longer horizontal lengths of 1.5 miles (previously one mile) and will increase frac density. As well, the Company has transitioned to a cemented completion method with limited entry sleeves, which provides both better frac placement control and drainage pattern. The focus on full field development along with improvements to drilling and completion methods has served to significantly decrease costs. Bonterra's average well cost is anticipated to be $2.7 million in 2014.

Additional capital spending in 2014 will include reactivating a gas plant at 11-17-49-04 in the first quarter. The reactivation will reduce operating costs as the Company will be able to redirect gas production from the Carnwood area to this plant. As well, it is anticipated that a portion of the 2014 capital development program will be allocated to two enhanced recovery pilot projects, a waterflood and a gas flood on two different pads in the Carnwood area, to examine the potential for secondary recovery methods on Bonterra's Cardium lands. Enhanced recovery methods have the ability to significantly increase reserve recovery and incremental value across a large portion of the Company's asset base and the pilot projects are expected to begin in the first half of 2014.

Outlook

Bonterra is committed to continue to create and deliver outstanding value on behalf of its investors by pursuing the disciplined development of its light oil targets in the Cardium zone to drive future growth. In 2014, the Company will again focus on improving production rates, sustaining a consistent pace of development and increasing project economics. The Company's conservative financial management, strong operational execution and focus on sustainability should allow Bonterra to continue to capitalize on its numerous opportunities, pay a substantial dividend and maximize shareholder value. One issue that is of concern to the Company and to the industry is the differential between WTI oil prices and the realized price received by the Company. During the fourth quarter, the differential has been fluctuating between $6.00 and $20.00 and will have an effect on funds flow. The general industry consensus is that it will not stay at this level for an extended period of time as additional oil is increasingly being delivered by rail or additional pipeline capacity. However, it will have an impact on fourth quarter 2013 results.

Management would like to take this opportunity to thank the Board of Directors for its reliable counsel and investors for their continued support. Bonterra is well-positioned with the capacity to continue delivering strong returns to shareholders and looks forward to capitalizing on its many opportunities in the last quarter of 2013 and into 2014.



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

Management's Discussion and Analysis

The following report dated November 11, 2013 is a review of the operations and current financial position for the three and nine months ended September 30, 2013 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, 2012 presented under International Financial Reporting Standards (IFRS).

Use of Non-IFRS Financial Measures

Throughout this Management's Discussion and Analysis (MD&A) the Company uses the terms "payout ratio", "cash netback" and "net debt" to analyze operating performance, which are not standardized measures recognized under IFRS and do not have a standardized meaning prescribed by IFRS. These measures are commonly used in the oil and gas industry and are considered informative by management, shareholders and analysts. These measures may differ from those made by other companies and accordingly may not be comparable to such measures as reported by other companies.

The Company calculates payout ratio by dividing cash dividends paid to shareholders by cash flow from operating activities, both of which are measures prescribed by IFRS which appear on our statements of cash flows. We calculate cash netback by dividing various financial statement items as determined by IFRS by total production for the period on a barrel of oil equivalent basis.

Frequently Recurring Terms

Bonterra uses the following frequently recurring terms in this MD&A: "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

	2013			2012			
As at and for the periods ended ($ 000s except $ per share)	**Q3**	Q2	Q1[1]	Q4	Q3	Q2	Q1
Financial							
Revenue – oil and gas sales	**78,946**	79,344	66,468	39,624	35,204	31,049	36,893
Cash flow from operations	**43,953**	41,445	40,726	21,460	16,440	14,727	21,698
Per share – basic	**1.41**	1.35	1.47	1.08	0.83	0.74	1.10
Per share – diluted	**1.40**	1.35	1.46	1.08	0.83	0.74	1.10
Payout ratio	**0.60**	62%	53%	72%	94%	105%	71%
Cash dividends per share	**0.84**	0.84	0.80	0.78	0.78	0.78	0.78
Net earnings	**19,690**	15,119	12,695	6,082	7,746	9,201	10,182
Per share – basic	**0.63**	0.49	0.46	0.31	0.39	0.47	0.52
Per share – diluted	**0.63**	0.49	0.46	0.31	0.39	0.46	0.51
Capital expenditures and acquisitions, net of dispositions	**34,025**	9,731	39,506 [2]	24,069	27,360	25,288 [3]	21,413
Total assets	**1,002,773**	987,067	1,016,594	419,933	412,812	393,772	371,757
Working capital deficiency	**43,681**	26,824	31,519	29,876	49,808	42,082	57,889
Long-term debt	**147,189**	179,379	189,509	166,808	128,779	114,747	75,543
Shareholders' equity	**671,528**	648,574	658,062	163,277	169,839	176,292	181,008
Operations							
Oil (barrels per day)	**7,310**	8,414	7,459	4,400	4,108	3,650	3,975
NGLs (barrels per day)	**772**	782	732	595	461	428	419
Natural gas (MCF per day)	**22,274**	20,554	22,176	16,009	12,583	11,753	12,260
Total BOE per day	**11,794**	12,621	11,887	7,663	6,666	6,037	6,438

[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.

[3] Includes an asset acquisition that closed on June 7, 2012 for $17,108,000.

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

Business Environment and Sensitivities

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

	Q3-2013	Q2-2013	Q1-2013	Q4 -2012	Q3 -2012	Q2 -2012	Q1-2012	Q4-2011
Crude oil								
WTI (U.S.$/bbl)	105.82	94.22	94.37	88.18	92.22	93.49	102.93	94.06
WTI to MSW Stream Index Differential (U.S.$/bbl)[(1)]	(4.72)	(3.67)	(6.95)	(3.32)	(7.21)	(10.12)	(10.49)	1.43
Bonterra average realized price (Cdn$/bbl)	103.30	89.38	84.20	78.58	80.54	80.93	88.48	96.25
Natural gas								
AECO (Cdn$/mcf)	2.43	3.52	3.18	3.20	2.31	1.89	2.15	3.19
Bonterra average realized price (Cdn$/mcf)	2.71	4.13	3.21	3.43	2.41	1.96	2.32	3.34
Foreign exchange								
Cdn$/U.S.$	1.0385	1.0234	1.0089	0.9913	0.9948	1.0102	1.0012	1.0231

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

During 2012, the price differentials between Bonterra's average realized price and WTI substantially increased, due in most part to reduced demand because of refinery outages, seasonal turnarounds and pipeline capacity constraints. In Q4 2012 the differential began to narrow and in Q3 2013 the differential tightened to an average of approximately $4.72 U.S.$/bbl for the quarter. However, subsequent to September 30, 2013, there has been an increase in the price differential due to the continuing growth of light U.S. crude oil supply and refinery turnarounds reducing the demand for Canadian crude oil. Canadian markets will continue to face volatile price differentials until additional transportation options become available, including increased rail take away and

pipeline initiatives such as Keystone XL in the United States, the TransCanada natural gas line to Ontario converting to an oil pipeline and the Northern Gateway pipeline in Canada.

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

Annualized sensitivity analysis on cash flow, as estimated for 2013[1]

Impact on cash flow	Change ($)	$000s	$ per share[2]
Realized crude oil price ($/bbl)	1.00	2,447	0.08
Realized natural gas price ($/mcf)	0.10	717	0.02

[1] This analysis uses current royalty rates, annualized estimated average production of 12,000 BOE per day and no changes in working capital.
[2] Based on annualized basic weighted average shares outstanding of 30,201,642.

Business Overview, Strategy and Key Performance Drivers

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

If Spartan had been acquired on January 1, 2013, those assets for the first nine months of 2013 would have added total revenue (primarily oil and gas sales, net of royalties) of $79,427,000 and production of 4,548 BOE per day. The combined production for the Company for the full nine months would have been 12,508 BOE per day. In addition Spartan assets would have added operating and administrative expenses of $12,511,000 for the nine month period ended September 30, 2013. Producing assets acquired in the Spartan acquisition are approximately 81 percent crude oil and natural gas liquids.

The Company incurred expenditures of $95,676,000, before dispositions, related to its capital program for the first nine months of 2013, of which $34,033,000 was incurred in the third quarter.

Operational success is 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						Nine months ended			
($000s)	**September 30, 2013**		June 30, 2013		September 30, 2012		**September 30, 2013**		September 30, 2012	
	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**	**9.0**	-	-	10	7.8	**24**	**23.8**	18	15.4
Crude oil horizontal-non-operated	**10**	**2.4**	-	-	2	1.0	**12**	**2.7**	4	1.3
Total	**19**	**11.4**	**-**	**-**	**12**	**8.8**	**36**	**26.5**	**22**	**16.7**
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 2013, the Company placed three gross (3.0 net) wells on production that were drilled in the later part of 2012 and drilled 24 gross (23.8 net) wells in the first nine months of 2013. Only two gross (2.0 net) wells were not placed on production by the end of the third quarter. In addition, 12 gross (2.7 net) non-operated wells were drilled and placed on production during 2013.

Production

	Three months ended			Nine months ended	
	September 30, 2013	June 30, 2013	September 30, 2012	**September 30, 2013**	September 30, 2012
Crude oil (barrels per day)	**7,310**	8,414	4,108	**7,727**	3,912
NGLs (barrels per day)	**772**	782	461	**762**	436
Natural gas (MCF per day)	**22,274**	20,554	12,583	**21,668**	12,200
Average BOE per day[1]	**11,794**	12,621	6,666	**12,100**	6,381

[1] In the first nine months of 2013, average daily production included 273 days of Bonterra production and 249 days of Spartan production.

Production volumes during the first nine months of 2013 increased to 12,100 BOE per day compared to 6,381 BOE per day, an increase of 90 percent over the same period in 2012. The increase in production is primarily due to the Spartan acquisition and the Company's 2013 drilling program in the Pembina and Willesden Green areas.

Production volumes for Q3 2013 decreased by seven percent compared to Q2 2013, which was primarily due to natural declines from flush production on wells drilled in the first quarter, pipeline apportionments, down time from plant turnarounds and other facility maintenance programs, which are commonly conducted during the third quarter that caused 220 BOE per day to be shut in or stored in field inventory. These production volumes are in line with the Company's 2013 guidance numbers.

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, 2013**	June 30, 2013	September 30, 2012	**September 30, 2013**	September 30, 2012
Production volumes (BOE)	**1,085,030**	1,148,535	613,296	**3,303,363**	1,748,473
Gross production revenue	**$72.76**	$69.08	$57.40	**$68.04**	$58.99
Royalties[1]	**(9.44)**	(10.21)	(4.34)	**(8.71)**	(5.89)
Field operating costs	**(14.71)**	(11.44)	(16.59)	**(13.00)**	(16.01)
Field netback	**$48.61**	$47.43	$36.47	**$46.33**	$37.09
General and administrative[2]	**(2.65)**	(1.71)	(2.50)	**(2.52)**	(2.55)
Interest and other	**(2.76)**	(2.20)	(1.56)	**(2.27)**	(1.61)
Cash netback	**$43.20**	$43.52	$32.41	**$41.54**	$32.93

The following non-recurring items, combined to reduce funds flow in 2013 by $4,331,000:

[1] Includes non-recurring royalties of $0.92 per BOE for the three months ended September 30, 2013, $1.74 for the three months ended June 30, 2013 and $0.91 per BOE for the nine months ended September 30, 2013 due to prior period royalties not paid by Spartan.

[2] Includes non-recurring general and administrative expenses of $0.31 per BOE for the three months ended September 30, 2013 and $0.40 per BOE for the nine months ended September 30, 2013 due to the Spartan acquisition.

Cash netbacks have increased for the first nine months of 2013 compared to 2012 primarily due to higher realized commodity prices and lower operating costs. Quarter over quarter cash netbacks decreased due to an increase in field operating and general and administration costs, offset by an increase in realized commodity prices.

Oil and Gas sales

($ 000s)	Three months ended **September 30, 2013**	June 30, 2013	September 30, 2012	Nine months ended **September 30, 2013**	September 30, 2012
Revenue – oil and gas sales	**78,946**	79,344	35,204	**224,758**	103,146
Average Realized Prices ($):					
Crude oil (per barrel)	**103.30**	89.38	80.54	**92.17**	84.87
NGLs (per barrel)	**55.30**	44.64	46.40	**51.16**	56.62
Natural gas (per MCF)	**2.71**	4.13	2.41	**3.33**	2.15
Average (per BOE)	**72.76**	69.08	57.40	**68.04**	59.85

Revenue from oil and gas sales increased by $121,612,000 in the first nine months of 2013 or 118 percent compared to the comparable nine month period in 2012. This increase was primarily due to an 89 percent increase in production due to the Spartan acquisition and the successful results of Bonterra's 2013 drilling program. Average realized price per BOE increased in 2013 compared to the same period a year ago, due to higher realized prices received for crude oil and natural gas.

The quarter over quarter oil and gas revenues remained flat due to decreased production, lower realized prices for natural gas, offset by higher realized prices for crude oil and NGLs.

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

Royalties

($ 000s)	Three months ended **September 30, 2013**	June 30, 2013	September 30, 2012	Nine months ended **September 30, 2013**	September 30, 2012
Crown royalties	**4,598**	4,903	1,942	**13,485**	7,291
Freehold, gross overriding and other royalties	**5,639**	6,824	720	**15,284**	3,016
Total royalties	**10,237**	11,727	2,662	**28,769**	10,307
Crown royalties - percentage of revenue	**5.8**	6.2	5.5	**6.0**	7.1
Freehold, gross overriding and other royalties - percentage of revenue	**7.1**	8.6	2.1	**6.8**	2.9
Royalties – percentage of revenue	**12.9**	14.8	7.6	**12.8**	10.0
Royalties $ per BOE	**9.44**	10.21	4.34	**8.71**	5.89

Royalties paid by the Company consist of Crown royalties paid to the Provinces of Alberta, Saskatchewan and British Columbia. The Company's average Crown royalty rate is approximately 6.0 percent for the first nine months of 2013 compared to 7.1 percent for the comparable period in 2012. The decrease is primarily due to a lower ratio of crown versus freehold wells acquired from Spartan and horizontal Cardium wells that are still eligible for the initial five percent royalty rate until accumulated production thresholds are met or the expiry of time allowed to reach the threshold levels. A significant portion of those initial five percent royalty rate wells are from wells recently drilled.

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

quarter of 2013, compared to a negative $1,000,000 gross overriding royalty adjustment in the third quarter of 2013, both relating to Spartan acquired wells.

Production Costs

	Three months ended			Nine months ended	
($ 000s except $ per BOE)	**September 30, 2013**	June 30, 2013	September 30, 2012	**September 30, 2013**	September 30, 2012
Production costs	**15,963**	13,144	10,178	**42,933**	28,001
$ per BOE	**14.71**	11.44	16.59	**13.00**	16.01

On a BOE basis, production costs have decreased by 19 percent during the nine month period. Total production costs for the nine months ended September 30, 2013 increased 53 percent from the comparable period in 2012 due to the 90 percent increase in production volumes over the same time period.

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

Quarter over quarter operating costs on a BOE basis have increased 29 percent primarily due to additional costs scheduled during the third quarter for facility start up and turnaround costs, in addition to third party equalizations. These scheduled seasonal facility costs in conjunction with natural production declines increased the production costs on a BOE basis.

With a full quarter of production from wells drilled and tied-in from the third quarter and new production from wells scheduled to be completed in the fourth quarter, the Company expects to reduce its production costs on a BOE basis in Q4 2013. The completed seasonal turnarounds and maintenance programs that have been completed in the third quarter will contribute to lower production costs on a BOE basis for the fourth quarter.

Other Income

	Three months ended			Nine months ended	
($ 000s)	**September 30, 2013**	June 30, 2013	September 30, 2012	**September 30, 2013**	September 30, 2012
Realized gain on investments	**-**	163	1,317	**278**	1,762
Gain on sale of property	**5**	212	7	**217**	3,616
Administrative income (loss)	**(17)**	8	83	**44**	248
Investment income	**19**	32	50	**86**	122
	7	415	1,457	**625**	5,748

During 2013, the Company disposed of a portion of its investments for gross proceeds of $968,000 (September 30, 2012 - $3,058,000). The increase in carrying value of these publically traded securities is mainly due to increased share prices, partially offset by the investments sold in the period. The market value of the investments held by the Company is $5,924,000 at September 30, 2013 (December 31, 2012 - $5,046,000).

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

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

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

General and Administration (G&A) Expense

	Three months ended			Nine months ended	
($ 000s except $ per BOE)	**September 30, 2013**	June 30, 2013	September 30, 2012	**September 30, 2013**	September 30, 2012
Employee compensation expense	**1,702**	1,494	935	**4,583**	3,099
Office and administration expense (recurring)	**838**	465	600	**2,406**	1,366
	2,540	1,959	1,535	**6,989**	4,465
Office and administration expense (non-recurring)[1]	**339**	-	-	**1,331**	-
Total G&A expense	**2,879**	1,959	1,535	**8,320**	4,465
$ per BOE (recurring)	**2.34**	1.71	2.50	**2.12**	2.55
$ per BOE (total)	**2.65**	1.71	2.50	**2.52**	2.55

[1] Non-recurring office and administration costs relates to the acquisition of Spartan.

Total G&A expense increased to $8,320,000 for the nine months ended September 30, 2013 from $4,465,000 for the comparable period in 2012.

The increase in employee compensation expense of $1,484,000 for 2013 compared to a year ago is primarily due to the increased number of staff required to accommodate the increased activity from the Spartan acquisition and an increase in accrued bonuses, due to higher net earnings before income taxes. The quarter over quarter increase of $208,000 is due to an increase in the accrued bonus. The Company has a bonus plan in which the bonus pool consists of three percent of earnings before income taxes. The Company firmly believes that tying employee compensation (including the use of stock options) to the performance of the Company clearly aligns the interest of the employees to that of the shareholders.

The increase in recurring office and administration expense for 2013 compared to 2012, related to an increase in bank renewal fees due to a higher credit facility, additional computer software costs and an increase in the allowance for doubtful accounts. The quarter over quarter increase relates primarily to an increase in additional software costs, technical fees, bank charges and an increase in the allowance for doubtful accounts for the third quarter.

Finance Costs

	Three months ended			Nine months ended	
($ 000s except $ per BOE)	**September 30, 2013**	June 30, 2013	September 30, 2012	**September 30, 2013**	September 30, 2012
Interest on long-term debt	**1,355**	1,875	779	**4,833**	2,114
Other interest	**261**	255	305	**697**	1,054
Interest expense	**1,616**	2,130	1,084	**5,530**	3,168
$ per BOE	**1.49**	1.85	1.77	**1.67**	1.81
Unwinding of the discounted value of decommissioning liabilities	**284**	278	227	**804**	662
Total finance costs	**1,900**	2,408	1,311	**6,334**	3,830

Interest on long-term debt increased $2,719,000 in 2013 compared to the same period a year ago as the Company increased the bank debt by $64,632,000 from the end of the second quarter of 2012 to the end of the second quarter of 2013. The increase was due to increased spending in the capital drilling program in the second half of

2012 and into the first quarter of 2013 and a $20,000,000 repayment of a short-term related party loan. The Company also experienced higher interest rates on its credit facilities in the first and second quarters of 2013. Interest rates are determined by net debt to cash flow ratios on a trailing quarterly basis. With the increased cash flow in the first nine months of the year from the Spartan acquisition and the $27,603,000 raised from the equity issuance on July 2, 2013 (see Shareholders' Equity section), the Company experienced lower interest rates in the third quarter of 2013.

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

From a sensitivity perspective on the estimated loan amounts, a one percent increase (decrease) in the Canadian prime rate would decrease (increase) both annual net earnings and comprehensive income by $1,194,000.

Share-based Payments

($ 000s)	Three months ended **September 30, 2013**	June 30, 2013	September 30, 2012	Nine months ended **September 30, 2013**	September 30, 2012
	1,055	1,135	1,040	**3,382**	2,977

Share-based payments are a statistically calculated value representing the estimated expense of issuing employee stock options. The Company records a compensation expense over the vesting period based on the fair value of options granted to employees, directors and consultants.

Based on currently outstanding options, the Company anticipates that an expense of approximately $767,000 will be recorded for the remainder of 2013, $1,014,000 for 2014, $356,000 for 2015 and $44,000 for 2016. For more information about options issued and outstanding, refer to Note 12 of the September 30, 2013 condensed financial statements.

Depletion and Depreciation, Exploration and Evaluation and Goodwill

($ 000s)	Three months ended **September 30, 2013**	June 30, 2013	September 30, 2012	Nine months ended **September 30, 2013**	September 30, 2012
Depletion and depreciation	**18,929**	28,582	8,010	**67,072**	22,936
Exploration and evaluation expense	**391**	-	-	**667**	-

Provision for depletion and depreciation increased by $44,136,000 for the first nine months of 2013 compared to 2012. The increase in depletion and depreciation was mainly the result of increased production volumes and increased property, plant and equipment costs from the Spartan acquisition. The quarter over quarter decrease was primarily due to lower production levels, a reduction in the decommissioning liabilities and additional developed reserves for wells that came on production late in the quarter.

Exploration and evaluation expense related to expired leases.

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

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

Taxes

The Company recorded a deferred tax expense of $19,160,000 for 2013 (September 30, 2012 - $9,249,000). The

deferred tax expense increase in 2013 compared to 2012 is primarily related to increased earnings before income taxes.

At September 30, 2013, the Company has $578,355,000 of tax pools, which may be used to reduce taxable income in future years, limited to various rates of utilization. The Company also has $27,670,000 (December 31, 2012 - $27,670,000) remaining of investment tax credits that expire between the years 2018 to 2027. In addition, the Company has $134,938,000 (December 31, 2012 - $135,502,000) of capital loss carry forwards which can only be claimed against taxable capital gains. For additional information regarding income taxes, see Note 8 of the September 30, 2013 condensed financial statements.

Net Earnings

	Three months ended			Nine months ended	
($ 000s except $ per share)	**September 30, 2013**	June 30, 2013	September 30, 2012	**September 30, 2013**	September 30, 2012
Net earnings	**19,690**	15,119	7,746	**47,504**	27,129
$ per share – basic	**0.63**	0.49	0.39	**1.59**	1.37
$ per share – diluted	**0.63**	0.49	0.39	**1.59**	1.37

Net earnings in the first nine months of 2013 increased by $20,375,000 or 75 percent from the comparable period of 2012. Increased net earnings resulted primarily from increased oil and gas production volumes and prices per BOE. This increase was partially offset by an increase in depletion and depreciation, deferred tax expense, production costs and royalty expenditures.

The increase in net earnings for Q3 2013 compared to Q2 2013 also resulted from increased oil and gas prices per BOE and a decrease in depletion and depreciation expense. This was partially offset by an increase in production costs and deferred tax expense.

Other Comprehensive Income

Other comprehensive income for 2013 consists of an unrealized gain before tax on investments (including investments in a related party) of $1,845,000 relating to an increase in the investments' fair value (September 30, 2012 – unrealized gain of $894,000). The Company also disposed of a portion of these investments in 2013 for a realized gain before tax of $278,000 (September 30, 2012 - $1,762,000). 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

	Three months ended			Nine months ended	
($ 000s except $ per share)	**September 30, 2013**	June 30, 2013	September 30, 2012	**September 30, 2013**	September 30, 2012
Cash flow from operations	**43,953**	41,445	16,440	**126,124**	52,865
$ per share – basic	**1.41**	1.35	0.83	**4.22**	2.68
$ per share – diluted	**1.40**	1.35	0.83	**4.21**	2.67

In 2013, cash flow from operations increased by $73,259,000 compared to the same period a year ago. This was primarily due to increased production and lower production costs realized from the Spartan acquisition, which combined with higher commodity prices, resulted in increased field net backs. Quarter over quarter increase was primarily due to a positive change in non-cash working capital, partially offset by lower field netbacks in addition to decreased production.

Related Party Transactions

Bonterra holds 1,034,523 (December 31, 2012 – 1,034,523) common shares in Pine Cliff which represents less than one percent ownership in Pine Cliff's outstanding common shares. Pine Cliff's common shares have a fair market value as of September 30, 2013 of $1,159,000 (December 31, 2012 - $910,000). Pine Cliff paid a management fee to the Company of $45,000 plus administrative costs (September 30, 2012 - $214,000 plus administrative costs from Pine Cliff and its subsidiary Geomark). Services provided by the Company include executive services, accounting services, oil and gas administration and office administration. All services performed are charged at estimated fair value. As at September 30, 2013, the Company had an account receivable from Pine Cliff of $145,000 (December 31, 2012 – $45,000).

As at September 30, 2013, the Company's CEO, Chairman of the Board and major shareholder has loaned the Company $12,000,000 (December 31, 2012 - $12,000,000). The loan bears interest at Canadian chartered bank prime less 5/8th 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 2013 was $213,000 (September 30, 2012 - $214,000). 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 expenditure ranges and dividend payments. Annualizing the first nine months of 2013 cash flow, the Company continues to meet its annual guidance range of 1 to 1 times to 1.5 to 1 times net debt to cash flow ratio with a ratio of 1.14 to 1 times. The Company anticipates the Spartan acquisition (see Note 4 to the September 30, 2013 condensed financial statements) and successful 2013 drilling program will continue to sustain future cash flows and shareholder dividends and continue to improve the debt to cash flow ratio.

Working Capital Deficiency

($ 000s)	**September 30, 2013**	December 31, 2012	September 30, 2012
Working capital deficiency	**43,681**	29,876	49,808
Long-term bank debt	**147,189**	166,808	128,779
Net debt	**190,870**	196,684	178,587
Shareholders' equity	**671,528**	163,277	169,839
Total	**862,398**	359,961	348,426

Net Debt and Working Capital

Net debt is a combination of long-term bank debt and working capital. The increase in net debt from $178,587,000 at September 30, 2012 to $190,869,000 at September 30, 2013 is primarily attributable to the Company's increased capital spending in the second half of 2012 to the end of the third quarter of 2013, while at the same time maintaining the dividends paid to shareholders.

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

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

During the third quarter of 2013 the Company completed a $27,603,000 equity issuance. These funds were used to temporarily reduce the outstanding bank debt, which also resulted in a reduction of the debt to cash flow ratio.

With the Spartan transaction, the Company inherited a derivative financial instrument entered into by Spartan. The financial derivative is outstanding for the period January 1, 2013, to December 31, 2013 for a total 273,750 barrels of oil (approximately 750 barrels of oil per day) at a fixed price of Cdn $90.00 per barrel. It is estimated that a 10 percent change in the forward crude oil prices would result in a $542,000 change in net earnings for the nine month period ended September 30, 2013.

On October 18, 2013, the Company entered into a financial derivative for the period November 1, 2013 to December 31, 2013 for a total of 488,000 MMBTU of natural gas at NYMEX less $0.34 U.S. per MMBTU.

Capital Expenditures

During the nine month period ended September 30, 2013, the Company incurred capital costs of $93,262,000 (September 30, 2012 - $56,953,000) net of proceeds of $2,406,000 on disposal of property, plant and equipment. The Company spent $95,676,000 primarily on the drilling of 24 gross (23.8 net) Pembina and Willesden Green Cardium operated horizontal wells and 12 (2.7 net) non-operated wells, facilities and gathering systems during the first nine months of 2013.

Long-term Debt

Long-term debt represents the outstanding draws from the Company's credit facilities as described in the notes to the interim condensed financial statements. As of September 30, 2013, the Company has bank facilities consisting of a $220,000,000 (December 31, 2012 - $160,000,000) syndicated revolving credit facility and a $30,000,000 (December 31, 2012 - $20,000,000) non-syndicated revolving credit facility, for total facilities of $250,000,000. Amounts drawn under these facilities at September 30, 2013 totaled $147,189,000 (December 31, 2012 - $166,808,000). The interest rates on the outstanding debt as of September 30, 2013 were 4.0 percent and 3.5 percent on the Company's Canadian prime rate loans and Banker's Acceptances, respectively. The loan is revolving to April 24, 2014, with a maturity date of April 25, 2015 and is subject to annual review. The revolving credit facilities have no fixed terms of repayment.

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

Shareholders' Equity

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

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

Issued and fully paid – common shares	Number	Amount ($ 000s)
Balance, December 31, 2012	**19,909,541**	**149,877**
Acquisition	**10,711,405**	**502,258**
Share issuance	**553,725**	**27,603**
Share issue costs, net of tax		**(996)**
Issued pursuant to the Company share option plan	**17,500**	**761**
Transfer from contributed surplus to share capital		**88**
Balance, September 30, 2013	**31,192,171**	**679,591**

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 3,119,217 (December 31, 2012 – 1,990,954) common shares. The exercise price of each option granted will not be lower than the market price of the common shares on the date of grant and the option's maximum term is three years. For additional information regarding options outstanding, see Note 12 of the September 30, 2013 condensed financial statements.

On July 2, 2013, the Company announced the closing of a bought deal financing of 553,725 common shares at a price of $49.85 per common share, for aggregate gross proceeds of $27,603,000. The Company incurred issue costs of $1,325,000 in respect of the financing.

Dividend Policy

For the nine month period ended September 30, 2013, Bonterra paid dividends of $73,632,000 ($2.48 per share) compared to $46,205,000 ($2.34 per share) in the same period in 2012. Bonterra's dividend policy is regularly monitored and is dependent upon production, commodity prices, funds from operations, debt levels and capital expenditures. With its large inventory of undrilled locations, Bonterra continues to be well positioned to provide its shareholders a combination of sustainable growth and meaningful dividend income.

Bonterra's dividends to its shareholders are funded by cash flow from operating activities with the remaining cash flow directed towards capital spending and, where applicable, the repayment of debt. To the extent that the excess cash flow from operations after dividends is not sufficient to cover capital spending, the shortfall is funded by funds from the exercising of employee stock options, the sale of investments and by draw downs from Bonterra's credit facilities. Bonterra intends to provide dividends to shareholders that are sustainable to the Company considering its liquidity and its long-term operational strategy. In addition, since the level of dividends is highly dependent upon cash flow generated from operations, which fluctuates significantly in relation to changes in financial and operational performance, commodity prices, interest and exchange rates and many other factors, future dividends cannot be assured. Bonterra's payout ratio based on cash flow was 58 percent for the nine months ended September 30, 2013 (87 percent for the nine months ended September 30, 2012).

Quarterly Financial information

For the periods ended ($ 000s except $ per share)	**2013** Q3	**2013** Q2	**2013** Q1	2012 Q4	2012 Q3	2012 Q2	2012 Q1
Revenue – oil and gas sales	**78,946**	79,344	66,468	39,624	35,204	31,049	36,893
Cash flow from operations	**43,953**	41,445	40,726	21,460	16,440	14,727	21,698
Net earnings	**19,690**	15,119	12,695	6,082	7,746	9,201	10,182
Per share – basic	**0.63**	0.49	0.46	0.31	0.39	0.47	0.52
Per share – diluted	**0.63**	0.49	0.46	0.31	0.39	0.46	0.51

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

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

Critical Accounting Estimates

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

Forward-Looking Information

Certain statements contained in this MD&A include statements which contain words such as "anticipate", "could", "should", "expect", "seek", "may", "intend", "likely", "will", "believe" and similar expressions, relating to matters that are not historical facts, and such statements of our beliefs, intentions and expectations about development, results and events which will or may occur in the future, constitute "forward-looking information" within the meaning of applicable Canadian securities legislation and are based on certain assumptions and analysis made by us derived from our experience and perceptions. Forward-looking information in this MD&A includes, but is not limited to: expected cash provided by continuing operations; cash dividends; future capital expenditures, including the amount and nature thereof; oil and natural gas prices and demand; expansion and other development trends of the oil and gas industry; business strategy and outlook; expansion and growth of our business and operations; and maintenance of existing customer, supplier and partner relationships; supply channels; accounting policies; credit risks; and other such matters.

All such forward-looking information is based on certain assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances. The risks, uncertainties, and assumptions are difficult to predict and may affect operations, and may include, without limitation: foreign exchange fluctuations; equipment and labour shortages and inflationary costs; general economic conditions; industry conditions; changes in applicable environmental, taxation and other laws and regulations as well as how such laws and regulations are interpreted and enforced; the ability of oil and natural gas companies to raise capital; the effect of weather conditions on operations and facilities; the existence of operating risks; volatility of oil and natural gas prices; oil and gas product supply and demand; risks inherent in the ability to generate sufficient cash flow from operations

to meet current and future obligations; increased competition; stock market volatility; opportunities available to or pursued by us; and other factors, many of which are beyond our control.

Actual results, performance or achievements could differ materially from those expressed in, or implied by, this forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do, what benefits will be derived there from. Except as required by law, Bonterra disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

The forward-looking information contained herein is expressly qualified by this cautionary statement.

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed to ensure the information required to be disclosed by the Company is accumulated and communicated to the Company's Management, as appropriate, to allow timely decisions regarding required disclosures. The Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), together with management, have concluded, based on their evaluation as of the end of the period covered by the interim filing that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the issuer, is made known to them by others within the Company. It should be noted that while the Company's CEO and CFO believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objective of the control system is met.

Internal Control Update

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

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

All internal control systems, no matter how well designed, have inherent limitations. These systems, therefore, provide reasonable but not absolute assurance that financial information is accurate and complete.

Financial Reporting Update

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

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

IFRS 10 "Consolidated Financial Statements"

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

IFRS 11 "Joint Arrangements"

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

IFRS 12 "Disclosure of Interests in Other Entities"

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

IFRS 13 "Fair Value Measurement"

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

As of January 1, 2015, Bonterra will be required to adopt amendments to IFRS 9 "Financial Instruments." The result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. Bonterra is currently assessing the impact the adoption of the amended standard will have on the Company's 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. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

The audit committee has reviewed these condensed financial statements with management and has reported to the Board of Directors. The Board of Directors has approved the financial statements as presented in this interim report.

CONDENSED STATEMENTS OF FINANCIAL POSITION

As at (unaudited) ($ 000s)	Note	**September 30, 2013**	**December 31, 2012**
Assets			
Current			
Accounts receivable		**28,967**	19,158
Crude oil inventory		**1,059**	797
Prepaid expenses		**3,574**	1,635
Investments		**4,765**	4,136
		38,365	25,726
Investment in related party	3	**1,159**	910
Exploration and evaluation assets	5	**8,186**	1,982
Property, plant and equipment	6	**834,583**	341,452
Investment tax credit receivable		**27,670**	27,670
Deferred tax asset		**-**	22,193
Goodwill	4,7	**92,810**	-
		1,002,773	419,933
Liabilities			
Current			
Accounts payable and accrued liabilities		**44,033**	28,602
Risk management contract	14	**1,013**	-
Due to related parties	9	**12,000**	12,000
Subordinated promissory note	10	**25,000**	15,000
		82,046	55,602
Bank debt	11	**147,189**	166,808
Decommissioning liabilities		**37,481**	34,246
Deferred tax liability		**64,529**	-
		331,245	256,656
Commitments and subsequent events	16, 17		
Shareholders' equity			
Share capital	12	**679,591**	149,877
Contributed surplus		**12,461**	9,167
Accumulated other comprehensive income		**2,991**	1,620
Retained earnings (deficit)		**(23,515)**	2,613
		671,528	163,277
		1,002,773	419,933

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

For the periods ended September 30 (unaudited)		Three Months		Nine Months	
($ 000s, except $ per share)	Note	**2013**	2012	**2013**	2012
Revenue					
Oil and gas sales, net of royalties	13	**68,709**	32,542	**195,989**	92,839
Loss on risk management contract	14	**(785)**	-	**(1,242)**	-
Other income	15	**7**	1,457	**625**	5,748
		67,931	33,999	**195,372**	98,587
Expenses					
Production costs		**15,963**	10,178	**42,933**	28,001
Office and administration		**1,177**	600	**3,737**	1,366
Employee compensation		**1,702**	935	**4,583**	3,099
Finance costs		**1,900**	1,311	**6,334**	3,830
Share-based payments	12	**1,055**	1,040	**3,382**	2,977
Depletion and depreciation	6	**18,929**	8,010	**67,072**	22,936
Exploration and evaluation expenses	5	**391**	-	**667**	-
		41,117	22,074	**128,708**	62,209
Earnings before income taxes		**26,814**	11,925	**66,664**	36,378
Deferred income taxes		**7,124**	4,179	**19,160**	9,249
Net earnings for the period		**19,690**	7,746	**47,504**	27,129
Other comprehensive income (loss)					
Unrealized gain on investments		**1,189**	1,070	**1,845**	894
Deferred taxes on unrealized gain on investments		**(149)**	(134)	**(231)**	(112)
Realized gain on investments transferred to net earnings		**-**	(1,317)	**(278)**	(1,762)
Deferred taxes on realized gain on investments transferred to net earnings		**-**	164	**35**	220
Other comprehensive gain (loss) for the period		**1,040**	(217)	**1,371**	(760)
Total comprehensive income for the period		**20,730**	7,529	**48,875**	26,369
Net earnings per share - basic	12	**0.63**	0.39	**1.59**	1.37
Net earnings per share – diluted	12	**0.63**	0.39	**1.59**	1.37
Comprehensive income per share - basic	12	**0.66**	0.38	**1.64**	1.34
Comprehensive income per share – diluted	12	**0.66**	0.38	**1.63**	1.33

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENTS OF CASH FLOW

For the periods ended September 30 (unaudited)		Three Months		Nine Months	
($ 000s)	Note	**2013**	2012	**2013**	2012
Operating activities					
Earnings before income taxes		**26,814**	11,925	**66,664**	36,378
Items not affecting cash					
Share-based payments		**1,055**	1,040	**3,382**	2,977
Depletion and depreciation		**18,929**	8,010	**67,072**	22,936
Exploration and evaluation expenses		**391**	-	**667**	-
Unrealized loss on risk management contract		**(594)**	-	**(847)**	-
Unwinding of the fair value of decommissioning liabilities		**284**	227	**804**	662
Gain on sale of property		**(5)**	(7)	**(217)**	(3,616)
Gain on sale of investments		**-**	(1,317)	**(278)**	(1,762)
Investment income		**(19)**	(50)	**(86)**	(122)
Interest expense		**1,617**	1,084	**5,530**	3,168
Change in non-cash working capital					
Change in accounts receivable		**(178)**	(3,963)	**(3,309)**	1,024
Change in crude oil inventory		**(155)**	(19)	**(23)**	358
Change in prepaid expenses		**(873)**	239	**(1,023)**	(671)
Change in accounts payable and accrued liabilities		**(1,638)**	551	**(6,377)**	(4,946)
Decommissioning expenditures		**(58)**	(196)	**(305)**	(353)
Interest paid		**(1,617)**	(1,084)	**(5,530)**	(3,168)
Cash provided by operating activities		**43,953**	16,440	**126,124**	52,865
Financing activities					
Increase (decrease) in bank debt		**(32,190)**	14,032	**(19,619)**	58,863
Subordinated promissory note		**-**	-	**10,000**	-
Issuance of common shares	12	**27,603**	-	**27,603**	-
Share issue costs		**(1,325)**	-	**(1,325)**	-
Stock option proceeds		**761**	431	**761**	5,058
Dividends		**(26,199)**	(15,453)	**(73,632)**	(46,205)
Cash provided by (used in) financing activities		**(31,350)**	(990)	**(56,212)**	17,716
Investing activities					
Investment income received		**19**	50	**86**	122
Exploration and evaluation expenditures		**(23)**	(35)	**(36)**	(92)
Property, plant and equipment expenditures		**(34,010)**	(27,469)	**(95,640)**	(60,614)
Proceeds on sale of property		**8**	144	**2,414**	3,753
Purchase of investments		**-**	-	**-**	(185)
Proceeds on sale of investments		**-**	1,827	**968**	3,058
Cash acquired on acquisition	4	**-**	-	**10,000**	-
Acquisition		**-**	-	**-**	(17,108)
Change in non-cash working capital					
Change in accounts payable and accrued liabilities		**21,415**	11,138	**8,211**	1,846
Change in accounts receivable		**(12)**	(1,105)	**4,085**	(1,361)
Cash used in investing activities		**(12,603)**	(15,450)	**(69,912)**	(70,581)
Net cash inflow		**-**	**-**	**-**	**-**
Cash, beginning of period		**-**	**-**	**-**	**-**
Cash, end of period		**-**	**-**	**-**	**-**

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENTS OF CHANGES IN EQUITY

For the periods ended (unaudited)

($ 000s, except number of shares outstanding)

	Number of shares outstanding (Note 12)	**Share capital (Note 12)**	**Contributed surplus [1]**	**Accumulated other comprehensive income [2]**	**Retained earnings (deficit)**	**Total shareholders' equity**
January 1, 2012	19,571,316	142,567	5,302	2,662	31,109	181,640
Share-based payments			2,977			2,977
Exercise of options	246,725	5,058				5,058
Transfer to share capital on exercise of options		319	(319)			-
Comprehensive income (loss)				(760)	27,129	26,369
Dividends					(46,205)	(46,205)
September 30, 2012	19,818,041	147,944	7,960	1,902	12,033	169,839
Share-based payments			1,264			1,264
Exercise of options	91,500	1,876				1,876
Transfer to share capital on exercise of options		57	(57)			-
Comprehensive income (loss)				(282)	6,082	5,800
Dividends					(15,502)	(15,502)
December 31, 2012	19,909,541	149,877	9,167	1,620	2,613	163,277
Share-based payments			3,382			3,382
Acquisition (Note 4)	10,711,405	502,258				502,258
Share issuance	553,725	27,603				27,603
Share issue costs, net of tax		(996)				(996)
Exercise of options	17,500	761				761
Transfer to share capital on exercise of options		88	(88)			-
Comprehensive income				1,371	47,504	48,875
Dividends					(73,632)	(73,632)
September 30, 2013	31,192,171	679,591	12,461	2,991	(23,515)	671,528

[1] Contributed surplus comprises of share-based payments.

[2] Accumulated other comprehensive income comprises of unrealized gains and losses on available-for-sale investments.

See accompanying notes to these condensed financial statements.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

As at September 30, 2013 and December 31, 2012 and for the three and nine months ended September 30, 2013 and 2012 (unaudited)

1. NATURE OF BUSINESS AND SEGMENT INFORMATION

Bonterra Energy Corp. (Bonterra or the Company) is a public company listed on the Toronto Stock Exchange and incorporated under the Business Corporations Act (Alberta). The address of the Company's registered office is Suite 901, 1015-4th 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 11, 2013.

2. BASIS OF PREPARATION

a) Statement of Compliance

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

The accounting policies and method of computation followed in the preparation of the condensed financial statements are the same as those followed in the preparation of Bonterra's 2012 audited annual financial statements except as described below. These condensed financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the 2012 audited annual financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

b) Recent Accounting Pronouncements

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

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

IFRS 10 "Consolidated Financial Statements"

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

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

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

c) Recent Accounting Pronouncements

As of January 1, 2015, Bonterra will be required to adopt amendments to IFRS 9 “Financial Instruments.” The result of the first phase of the IASB’s project to replace IAS 39, “Financial Instruments: Recognition and Measurement”. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. Bonterra is currently assessing the impact the adoption of the amended standard will have on the Company’s financial statements.

3. INVESTMENT IN RELATED PARTY

The investment consists of 1,034,523 (December 31, 2012 – 1,034,523) common shares in Pine Cliff Energy Ltd. (Pine Cliff), a company with some common directors and some common management with Bonterra. The investment in Pine Cliff represents less than 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, 2012 – 204,633) common shares in Bonterra.

4. ACQUISITION

On January 25, 2013, Bonterra acquired 100 percent of the issued and outstanding common shares of Spartan Oil Corp. (Spartan) pursuant to an arrangement agreement (Spartan Transaction). Spartan was a public oil and gas company with properties in Alberta and Saskatchewan. Consideration for Spartan shares was 0.1169 voting common shares of Bonterra, which amounted to the issuance of 10,711,405 Bonterra shares valued at $502,258,000, using the closing share price of $46.89 per share on the date of the Spartan Transaction. The exchange ratio for the transaction represents a deemed price of $5.03 per Spartan Share. The Spartan assets contributed revenue (primarily oil and gas sales, net of royalties) of $71,852,000 and operating and administrative expenses of $9,714,000 for the period from January 25, 2013 to September 30, 2013. If the acquisition had occurred on January 1, 2013, total revenue (primarily oil and gas sales, net of royalties) would have been approximately $79,427,000 and operating and administrative expenses would have been $12,511,000 for the nine month period ended September 30, 2013. The Spartan Transaction was accounted for as a business combination with Bonterra identified as the acquirer.

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

Net assets acquired:	($ 000s)
Exploration and evaluation assets	8,830
Property, plant and equipment	471,139
Goodwill	92,810
Working capital	
Cash	10,000
Accounts receivable	10,585
Prepaid expense	915
Accounts payable and accrued liabilities	(13,597)
Risk management contract	(1,859)
Decommissioning liabilities	(8,870)
Deferred tax liability	(67,695)
Total	502,258

Consideration:	
Bonterra shares (10,711,405 shares at $46.89)	502,258
Total purchase price	502,258

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

5. EXPLORATION AND EVALUATION ASSETS

($ 000s)	
Cost and carrying amount	
Balance at December 31, 2012	1,982
Acquisition	8,830
Additions	36
Disposition (Note 6)	(1,373)
Transfers to property, plant and equipment	(622)
Expiry of exploration and evaluation assets	(667)
Balance at September 30, 2013	**8,186**

6. PROPERTY, PLANT AND EQUIPMENT

Cost ($ 000s)	Oil and gas properties	Production facilities	Furniture, fixtures & other equipment	Total property, plant & equipment
Balance at December 31, 2012	**427,241**	**94,902**	**1,661**	**523,804**
Additions	74,855	20,365	420	95,640
Adjustment to decommissioning liabilities	(6,000)	-	-	(6,000)
Disposals	(822)	(205)	(35)	(1,062)
Transfers from exploration and evaluation assets	622	-	-	622
Acquisition	378,685	92,454	-	471,139
Balance at September 30, 2013	**874,581**	**207,516**	**2,046**	**1,084,143**

Accumulated Depletion and Depreciation ($ 000s)	Oil and gas properties	Production facilities	Furniture, fixtures & other equipment	Total property, plant & equipment
Balance at December 31, 2012	**(143,607)**	**(37,521)**	**(1,224)**	**(182,352)**
Depletion and depreciation	(54,301)	(12,658)	(113)	(67,072)
Disposal and other	(176)	9	31	(136)
Balance at September 30, 2013	**(198,084)**	**(50,170)**	**(1,306)**	**(249,560)**

Carrying amounts as at: **($ 000s)**				
December 31, 2012	283,634	57,381	437	341,452
September 30, 2013	**676,497**	**157,346**	**740**	**834,583**

The impairment of property, plant and equipment assets and any subsequent reversal of such impairment losses are recognized in the statement of comprehensive income. There were no impairment losses recorded in the statement of comprehensive income for the three and nine months ended September 30, 2013 and 2012.

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

7. GOODWILL

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

8. INCOME TAXES

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

($ 000s)	Rate of Utilization (%)	Amount
Undepreciated capital costs	20-100	78,443
Eligible capital expenditures	7	5,616
Share issue costs	20	5,362
Canadian oil and gas property expenditures	10	70,089
Canadian development expenditures	30	229,831
Canadian exploration expenditures	100	10,669
Income tax losses carried forward [1]	100	178,345
		578,355

[1] Federal income tax losses carried forward expire in the following years; 2025 - $3,476,000, 2026 - $117,189,000, 2027 - $35,248,000, 2028 - $13,131,000, 2031 - $9,301,000.

The Company has $27,670,000 (December 31, 2012 - $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, 2027 - $745,000.

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

9. TRANSACTIONS WITH RELATED PARTIES

As at September 30, 2013, the Company's CEO, Chairman of the Board and major shareholder has loaned the Company $12,000,000 (December 31, 2012 - $12,000,000). The loan bears interest at Canadian chartered bank prime less 5/8th of a percent and has no set repayment terms but is payable on demand. Security under the debenture is over all of the Company's assets and is subordinated to any and all claims in favour of the syndicate of senior lenders providing credit facilities to the Company. Interest paid on this loan during the first nine months was $213,000 (September 30, 2012 - $214,000). The Company's bank agreement requires that the above loan can only be repaid should the Company have sufficient available borrowing limits under the Company's credit facility.

The Company received a management fee of $45,000 plus administrative costs for the nine months ended September 30, 2013 (September 30, 2012 - $357,000 plus administrative costs from Pine Cliff and Geomark) for management services and office administration from Pine Cliff. The management fee has been included in other income. As at September 30, 2013, the Company had an account receivable from Pine Cliff of $145,000 (December 31, 2012 - $45,000).

10. SUBORDINATED PROMISSORY NOTE

As at September 30, 2013, Bonterra has borrowed $25,000,000 (December 31, 2012 - $15,000,000) from a private investor, in exchange for a Subordinated Promissory Note. The terms of the Subordinated Promissory Note are that it bears interest at three percent and is payable after thirty days written notice by either party. Security consists of a floating demand debenture totaling $25,000,000 over all of the Company's assets and is subordinated to any and all claims in favor of the syndicate of senior lenders providing credit facilities to the Company. Interest paid on the subordinated promissory note for the first nine months was $484,000 (September 30, 2012 - $338,000).

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

11. BANK DEBT

As at September 30, 2013, the Company has bank facilities consisting of $220,000,000 (December 31, 2012 - $160,000,000) syndicated revolving credit facility and a $30,000,000 (December 31, 2012 - $20,000,000) non-

syndicated revolving credit facility, for total facilities of $250,000,000. Amounts drawn under both credit facilities at September 30, 2013 were $147,189,000 (December 31, 2012 - $166,808,000). Amounts borrowed under the credit facilities at September 30, 2013 bear interest at a floating rate based on the applicable Canadian prime rate, which is presently three percent or Banker's Acceptance rate, plus between 0.75 percent and 3.50 percent, depending on the type of borrowing and the Company's consolidated total funded debt to consolidated cash flow. The terms of the revolving credit facilities provided that the loan is revolving to April 24, 2014 and with a maturity date of April 25, 2015 and is subject to annual review. The revolving credit facilities have no fixed terms of repayment.

The amount available for borrowing under the credit facilities is reduced by outstanding letters of credit. Letters of credit totaling $700,000 were issued as at September 30, 2013 (December 31, 2012 - $400,000). Security for credit facilities consists of various and floating demand debentures totaling $400,000,000 (December 31, 2012 - $300,000,000) over all of the Company's assets and a general security agreement with first ranking over all personal and real property.

The following is a list of the material covenants on the banking facility:

- The Company is required to not exceed $250,000,000 in consolidated debt (includes working capital but excludes amounts due to related parties and subordinated promissory note).
- Dividends paid in the current quarter shall not exceed 80 percent of the average available cash flow for the preceding four fiscal quarters.

Available cash flow is defined to be cash provided by operating activities excluding gains on sale of property and investments, the change in non-cash working capital and decommissioning liabilities settled and including all net proceeds of dispositions included in cash used in investing activities. At September 30, 2013, the Company is in compliance with all covenants.

12. SHAREHOLDERS' EQUITY

Authorized

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

Issued and fully paid – common shares	**Number**	**Amount ($ 000s)**
Balance, December 31, 2012	**19,909,541**	**149,877**
Acquisition	**10,711,405**	**502,258**
Share issuance	**553,725**	**27,603**
Share issue costs, net of tax		**(996)**
Issued pursuant to the Company share option plan	**17,500**	**761**
Transfer from contributed surplus to share capital		**88**
Balance, September 30, 2013	**31,192,171**	**679,591**

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 nine months ended September 30 are as follows:

	Three months		Nine months	
	September 30, 2013	September 30, 2012	**September 30, 2013**	September 30, 2012
Basic shares outstanding	**31,180,457**	19,811,432	**29,867,837**	19,747,630
Dilutive effect of share options [(1)]	**135,877**	57,464	**86,883**	58,703
Diluted shares outstanding	**31,316,334**	19,868,896	**29,954,720**	19,806,333

[(1)] The Company did not include 592,000 share options for the three months ended September 30, 2013 (September 30, 2012 – 1,078,000) and 1,013,000 share options for the nine months ended September 30, 2013 (September 30, 2012 – 1,068,000) in the dilutive effect of share options calculation as these share options were anti-dilutive.

For the nine months ended September 30, 2013, the Company declared and paid dividends of $73,632,000 ($2.48 per share) (September 30, 2012 - $46,205,000 ($2.34 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 3,119,217 (December 31, 2012 – 1,990,954) common shares. The exercise price of each option granted cannot be lower than the market price of the common shares on the date of grant and the option's maximum term is three years.

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

	Number of options	**Weighted average exercise price**
Balance, December 31, 2012	1,902,000	$49.99
Options granted	357,000	48.51
Options exercised	(17,500)	43.46
Options cancelled	(12,000)	50.11
Options forfeited	(89,000)	51.00
Balance, September 30, 2013	2,140,500	$49.75

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

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number outstanding at September 30, 2013	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at September 30, 2013	Weighted-average exercise price
$ 40.00 – $ 49.50	1,158,500	1.3 years	$45.80	58,500	$43.10
50.00 – 59.00	982,000	2.1 years	54.42	490,500	57.63
$ 40.00 – $ 59.00	2,140,500	1.7 years	$49.75	549,000	$56.08

The Company records compensation expense over the vesting period, which ranges between one to three years, based on the fair value of options granted to employees, directors and consultants. In 2013, the Company granted 357,000 stock options with an estimated fair value of $1,537,000 or $4.30 per option using the Black-Scholes option pricing model with the following key assumptions:

	September 30, 2013
Weighted-average risk free interest rate (%)[1]	**1.15**
Expected life (years)	**1.89**
Weighted-average volatility (%) [2]	**26.70**
Forfeiture rate (%)	**-**
Weighted average dividend yield (%)	**6.93**

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

13. OIL AND GAS SALES, NET OF ROYALTIES

	Three months		Nine months	
($ 000s)	**September 30, 2013**	September 30, 2012	**September 30, 2013**	September 30, 2012
Oil and gas sales	**78,946**	35,204	**224,758**	103,146
Less:				
Crown royalties	**(4,598)**	(1,942)	**(13,485)**	(7,291)
Freehold, gross overriding royalties and other	**(5,639)**	(720)	**(15,284)**	(3,016)
Oil and gas sales, net of royalties	**68,709**	32,542	**195,989**	92,839

14. RISK MANAGEMENT CONTRACT

	Three months		Nine months	
($ 000s)	**September 30, 2013**	September 30, 2012	**September 30, 2013**	September 30, 2012
Risk management contract				
Realized gain (loss)	**(1,379)**	-	**(2,089)**	-
Unrealized gain	**594**	-	**847**	-
	(785)	-	**(1,242)**	-

With the Spartan transaction, the Company inherited a derivative financial instrument. The financial derivative is outstanding for the period January 1, 2013, to December 31, 2013 for a total 273,750 barrels of oil (approximately 750 barrels of oil per day) at a fixed price of Cdn $90.00 per barrel. It is estimated that a 10 percent change in the forward crude oil prices would result in a $542,000 change in net earnings for the nine month period ended September 30, 2013.

15. OTHER INCOME

	Three months		Nine months	
($ 000s)	**September 30, 2013**	September 30, 2012	**September 30, 2013**	September 30, 2012
Investment income	**19**	50	**86**	122
Administrative income (loss)	**(17)**	83	**44**	248
Realized gain on sale of property	**5**	7	**217**	3,616
Realized gain on investments	**-**	1,317	**278**	1,762
Other income	**7**	1,457	**625**	5,748

16. COMMITMENTS

The Company has entered into leases for buildings and office equipment. These leases have an average life of 4.5 years. There are no restrictions placed upon the lessee by entering into these leases. Future minimum lease payments under non-cancellable operating leases as at September 30, 2013 are as follows:

($ 000s)	
Within one year	1,279
After one year but not more than five years	4,390
Total	5,669

17. SUBSEQUENT EVENTS

(I) Dividends

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

Date declared	Record date	$ per share	Date payable
October 3, 2013	October 15, 2013	0.28	October 31, 2013
November 1, 2013	November 15, 2013	0.28	November 29, 2013

(II) Risk Management Contract

On October 18, 2013, the Company entered into a financial derivative for the period November 1, 2013 to December 31, 2013 for a total of 488,000 MMBTU of natural gas at NYMEX less $0.34 U.S. per MMBTU.

CORPORATE INFORMATION

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

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

Registrar and Transfer Agent
Olympia Trust Company, Calgary, Alberta

Auditors
Deloitte LLP, Calgary, Alberta

Solicitors
Borden Ladner Gervais LLP, Calgary, Alberta

Bankers
CIBC, Calgary, Alberta
Alberta Treasury Branch, Calgary, Alberta
National Bank of Canada, Calgary, Alberta
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