

Press Release November 3, 2011

Calgary - Bonavista Energy Corporation is pleased to report to shareholders its interim consolidated financial and operating results for the three and nine months ended September 30, 2011.

### Highlights

	Three months ended September 30,			Nine months ended September 30,		
	2011	2010	% Change	2011	2010	% Change
<b>Financial</b>						
(\$ thousands, except per share)						
Production revenues	264,349	222,656	19%	759,247	704,020	8%
Funds from operations <sup>(1)</sup>	134,772	123,562	9%	402,460	399,729	1%
Per share <sup>(1) (2)</sup>	0.84	0.79	6%	2.53	2.62	(3%)
Dividends declared	50,834	64,106	(21%)	148,182	188,056	(21%)
Per share	0.36	0.48	(25%)	1.08	1.44	(25%)
Percentage of funds from operations <sup>(1)</sup>	38%	52%	(14%)	37%	47%	(10%)
Net income	31,166	24,695	26%	140,505	149,072	(6%)
Per share <sup>(3)</sup>	0.19	0.18	6%	0.88	1.15	(23%)
Adjusted net income <sup>(4)</sup>	16,358	46,855	(65%)	122,389	153,688	(20%)
Per share <sup>(3)</sup>	0.11	0.35	(69%)	0.77	1.18	(35%)
Total assets				3,771,975	3,455,331	9%
Long-term debt, net of working capital <sup>(5)</sup>				1,057,875	1,032,830	2%
Long-term debt, net of adjusted working capital <sup>(4)(5)</sup>				1,066,748	1,040,185	3%
Shareholders' equity				2,051,230	1,288,318	59%
Capital expenditures:						
Exploration and development	123,756	84,370	47%	372,515	254,031	47%
Acquisitions, net	99,477	15,168	556%	96,400	260,315	(63%)
Weighted average outstanding equivalent shares: (thousands) <sup>(3)</sup>						
Basic	161,321	133,530	21%	158,828	130,162	22%
Diluted	162,457	156,084	4%	159,968	153,765	4%
<b>Operating</b>						
(boe conversion – 6:1 basis)						
Production:						
Natural gas (mmcf/day)	266	248	7%	251	237	6%
Natural gas liquids (bbls/day)	13,319	11,870	12%	12,305	11,284	9%
Oil (bbls/day) <sup>(9)</sup>	13,941	14,743	(5%)	13,786	14,726	(6%)
Total oil equivalent (boe/day)	71,636	68,029	5%	67,971	65,569	4%
Product prices: <sup>(6)</sup>						
Natural gas (\$/mcf)	4.13	4.12	-	4.19	4.65	(10%)
Natural gas liquids (\$/bbl)	55.08	40.85	35%	53.61	44.96	19%
Oil (\$/bbl) <sup>(9)</sup>	77.95	66.10	18%	79.34	68.44	16%
Operating expenses (\$/boe)	9.60	7.75	24%	8.98	8.12	11%
General and administrative expenses (\$/boe)	0.95	0.84	13%	0.96	0.86	12%
Cash costs (\$/boe) <sup>(7)</sup>	12.33	9.77	26%	11.74	9.95	18%
Operating netback (\$/boe) <sup>(8)</sup>	23.18	21.76	7%	24.45	24.16	1%

#### NOTES:

- (1) Management uses funds from operations to analyze operating performance, dividend coverage and leverage. Funds from operations as presented do not have any standardized meaning prescribed by IFRS and therefore it may not be comparable with the calculations of similar measures for other entities. Funds from operations as presented is not intended to represent operating cash flow or operating profits for the period nor should it be viewed as an alternative to cash flow from operating activities, net income or other measures of financial performance calculated in accordance with IFRS. All references to funds from operations throughout this report are based on cash flow from operating activities before changes in non-cash working capital and decommissioning liabilities. Funds from operations per share is calculated based on the weighted average number of shares outstanding consistent with the calculation of net income per share.
- (2) Basic funds from operations per share calculations include exchangeable shares which are convertible to common shares on certain terms and conditions. For the comparative periods, exchangeable shares are included in the basic funds from operations per share calculation.
- (3) Basic net income per share calculations include exchangeable shares which are convertible to common shares on certain terms and conditions. For the comparative periods under the trust structure, exchangeable shares are excluded from the basic per share calculations in accordance with International Financial Reporting Standards.
- (4) Amounts have been adjusted to exclude unrealized gains or losses on financial instrument commodity contracts.
- (5) Amounts exclude convertible debentures, exchangeable shares and share-based compensation.
- (6) Product prices include realized gains or losses on financial instrument commodity contracts.
- (7) Cash costs equal the total of operating, general and administrative, and financing expenses.
- (8) Operating netback equals production revenues including realized gains or losses on financial instrument commodity contracts, less royalties, transportation and operating expenses, calculated on a boe basis.
- (9) Oil includes both conventional and heavy oil.

Share Trading Statistics	Three months ended			
	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010
(\$ per share, except volume)				
High	29.98	30.36	32.00	29.50
Low	20.08	27.13	25.12	23.88
Close	23.56	28.57	30.00	28.80
Average Daily Volume - Shares	370,453	345,427	561,706	304,761

## MESSAGE TO SHAREHOLDERS

Bonavista Energy Corporation (“Bonavista”) is pleased to report to shareholders its financial and operating results for the three and nine months ended September 30, 2011. The consistent execution of our proven and disciplined business strategies resulted in another solid quarter for Bonavista.

During the quarter we witnessed continued weakening global economic trends and a corresponding decline in commodity prices and equity valuations. While the impact of this downturn to our industry was largely negative, it enabled Bonavista to negotiate two strategic private company acquisitions within our core areas at transaction metrics comparable to the level of adding production and reserves with our organic program. To accommodate these acquisitions totaling \$180 million and a concurrent \$40 million increase to our exploration and development program, Bonavista announced a bought deal equity financing on July 28, 2011 of 7 million common shares for net proceeds of approximately \$192 million. As a result, Bonavista expanded its 2011 capital expenditure program from \$380 million to \$600 million. Our strategy of pursuing accretive, counter-cyclical acquisitions while maintaining balance sheet flexibility is a well proven tactic for Bonavista and one we are confident will lead to continued success.

Other accomplishments for Bonavista in the third quarter of 2011 include:

- Increased average production volumes to a record 71,636 boe per day despite significant turnaround activity throughout the quarter. This represents an 8% increase over production levels in the second quarter of 2011 and a 5% increase over the production levels in the third quarter of 2010. With the volumes from our recent acquisitions now incorporated, we are currently producing approximately 75,000 boe per day;
- Invested \$123.8 million in exploration and development activities and \$99.5 million in net acquisition and divestiture activities resulting in total capital expenditures of \$223.3 million;
- Executed our budgeted exploration and development program, drilling 55 wells with an overall success rate of 100%. Our third quarter drilling activity included 44 horizontal wells in pursuit of unconventional resource development across seven different geological horizons. Notably, 75% of our wells drilled throughout the third quarter were oil wells;
- Participated at Crown land sales purchasing approximately 20,350 net acres of undeveloped land for a total of \$5.7 million, further enhancing our organic growth opportunities; and
- Generated funds from operations of \$134.8 million (\$0.84 per share) for the three months ended September 30, 2011. Bonavista distributed 38% of these funds for the three months ended September 30, 2011 to shareholders with the remaining funds reinvested to continue growing our production base.

Accomplishments for Bonavista subsequent to the third quarter of 2011 include:

- Completed the private placement of US\$150 million of unsecured senior notes with an interest rate of 4.25% for a ten year term and an extension of our existing \$1 billion bank facility to September 10, 2015 to further enhance our financial flexibility; and
- Since inception as a trust in 2003 and continuing in our current corporate structure, Bonavista has delivered cumulative dividends of over \$2.1 billion or \$24.39 per common share.

## **Third Quarter 2011 Operational Review:**

### **Hoadley Glauconite Liquids Rich Natural Gas**

Bonavista drilled 10 operated horizontal wells and participated in two additional non-operated horizontal wells on the highly prospective Glauconite trend. Our third quarter drilling program advanced the development of the south western area of the Glauconite trend with the drilling of four horizontal wells targeting the deeper, higher pressured regions of the reservoir. First month production results of these wells have modestly exceeded our expectations providing support for continued inventory and reserves growth in this region. Furthermore, Bonavista's third quarter acquisition activity consolidated our existing position in this region, adding critical operational mass and future growth opportunities with the addition of 16 incremental horizontal locations.

Bonavista continued to invest into facilities and infrastructure in the third quarter creating additional capacity to deliver incremental volumes to a midstream processing facility near Rimbey which offers premium liquids recoveries. As a result of this consistent investment throughout 2011, we have observed a 17% increase in the weighted average liquids yield to 70 bbls per mmcf, thereby improving the single well economics associated with our future development program.

With 99 horizontal Glauconite wells now drilled since entering this play in 2008, our production results have modestly outperformed our internal type curve expectations. Single well economics remain robust at current commodity prices with payout occurring within the first 13 months of production resulting in rates of return of approximately 80%. With a current drilling inventory of 380 future horizontal drilling locations, our Glauconite development program remains one of our key growth platforms where we expect to drill between 50 and 55 horizontal wells in 2012.

### **Rosevear Rock Creek Liquids Rich Natural Gas**

The final three Rock Creek wells drilled in the second quarter were brought on production in July and averaged 550 boe per day per well in their first month of production. Enhanced liquids recovery efficiency at our Rosevear processing facility has led to a weighted average liquids profile of 40 bbls per mmcf from the 9 horizontal wells that we have drilled and tied into this facility to date. Bonavista's inventory level of 35 horizontal locations offers attractive single well economics with current anticipated rates of return of approximately 60%. We anticipate drilling five horizontal Rock Creek wells in 2012.

### **Pine Creek Bluesky Liquids Rich Natural Gas**

Bonavista's three horizontal Bluesky wells drilled to date at Pine Creek continue to outperform our type curve delivering average rates of 440 boe per day per well over the past six months which includes a natural gas liquids yield of 40 bbls per mmcf. With a current inventory of 25 horizontal locations, the development profile of this pool is attractive with single well economics delivering rates of return of approximately 140% and payout occurring within 12 months.

Bonavista will be investing approximately \$10 million in the expansion of processing capacity to accommodate further Bluesky development in 2012. Subsequent to this capacity expansion, Bonavista anticipates drilling four horizontal Bluesky wells in the first quarter of 2012.

### **Cardium Light Oil**

Bonavista participated in 13 Cardium horizontal oil wells in the third quarter, five of which were operated by Bonavista. Our operated development program was focused in the Ferrier area with three 100% working interest horizontal wells drilled and production tested at an average rate of 1,500 boe per day per well over a seven day period. We anticipate these wells will average approximately 800 boe per day per well in the first month on production, of which 80% of the volume will be oil and liquids.

Bonavista continued to employ water-based completion techniques in the third quarter with production results equal to or better than the offsetting oil stimulated wells, while offering cost savings of approximately \$400,000 per well.

Since initiating our unconventional Cardium development program in the fourth quarter of 2009, Bonavista has drilled 45 Cardium horizontal wells. We have delivered consistent year over year improvements in production rates by focusing our efforts in areas of greater reservoir quality and continuously refining our drilling and completion techniques.

With over 100 horizontal locations currently identified in inventory, Bonavista anticipates drilling between 20 and 25 horizontal Cardium wells in 2012.

## **Blueberry Montney Liquids Rich Natural Gas**

Bonavista gained confidence with the technical and economic merits of this emerging resource play throughout the third quarter. Bonavista's two horizontal Upper Montney wells currently on production are exhibiting stabilized production performance of 125 boe per day per well with an average liquids yield of 100 bbls per mmcf of raw natural gas, 55% of which is free condensate. The attractive liquids production profile of these initial two horizontal wells has generated average netbacks of approximately \$40 per boe over the past 10 months. Currently, 80% of the cash flow generated from these wells is derived from the natural gas liquids components of the production stream.

Bonavista holds 55 contiguous net sections of Montney rights in the Blueberry area of which 100% are prospective for unconventional resource development in the Upper Montney horizon. Additionally, based on our technical work conducted to date and encouraging offsetting industry results, we consider the Lower Montney horizon to be prospective across approximately 65% of our land base.

Bonavista is currently drilling an additional horizontal well to further delineate the Upper Montney and is participating in a Lower Montney horizontal well to conclude our budgeted 2011 development program. We anticipate drilling between two and four horizontal wells in 2012 to further delineate and evaluate this large, liquids rich resource play in its progression towards full scale development in the future.

## **Emerging Opportunities**

Bonavista is encouraged by recent industry developments in the emerging Duvernay shale play. Continued crown land sale results, well licensing, and drilling activity in the Willesden Green area will accelerate industry's awareness of the merits of this play. Bonavista is currently drilling our first vertical well in the Duvernay shale to enhance our understanding of the technical and commercial aspects of this resource. Currently our exposure to this opportunity consists of over 400 net sections in the Willesden Green area, of which 75 net sections are believed to be prospective for liquid rich natural gas.

In addition to the Duvernay formation, our technical teams continue to identify and evaluate additional emerging resource opportunities with a focus on tight sand and source rock prospects on, or in close proximity to our extensive land base. These opportunities include the Viking, Ellerslie, Pekisko, Fahler, Notikewin, Wilrich, Banff, and Second White Specks formations.

## **Strengths of Bonavista Energy Corporation**

Beginning in 1997 with an initial restructuring to create a high growth junior exploration company, throughout the income trust phase between July 2003 and 2010, and now operating as a dividend paying corporation, Bonavista remains committed to the same strategies that have resulted in our tremendous success over the last 14 years. We have maintained a high level of investment activity on our asset base, increasing current production by approximately 100% since converting to an energy trust in July 2003 and a further 14% since converting back to a corporation at the end of 2010. More importantly, profitability metrics remained strong over this period. These results stem from the operational, technical and financial focus of our people, their attention to detail, and their entrepreneurial approach to generating low risk, highly profitable projects within the Western Canadian Sedimentary Basin. Our experienced technical teams have a solid understanding of our assets and they continue to exercise the discipline and commitment required to deliver long-term value to our shareholders. We actively participate in undeveloped land acquisitions, property purchases and farm-in opportunities, which have all enhanced the quality and quantity of our extensive drilling inventory. These activities have led to low cost reserve additions, lengthening of our reserve life index, and a predictable production base that continues to grow at a healthy pace. Our production base is currently weighted 61% towards natural gas and is geographically focused within select, multi-zone regions primarily in Alberta and British Columbia. The low cost structure of our asset base maintains attractive operating netbacks in most operating environments. In addition, our asset base is predominantly operated by Bonavista, providing control over the pace of operations and ensuring that operating and capital cost efficiencies are consistently optimized.

Our team brings a successful track record of executing low to medium risk development programs, including both asset and corporate acquisitions, along with sound financial management. Our Board of Directors and management team possess extensive experience in the oil and natural gas business. They have successfully guided our organization through many different economic cycles utilizing a proven strategy consisting of disciplined cost controls and prudent financial management. Directors, management and employees also own approximately 14% of the equity of Bonavista, resulting in the alignment of interests with all shareholders.

## Outlook

Going forward, Bonavista plans to apply the same proven strategies that we committed to at inception in 1997. The essence of these strategies is to continually exercise cost discipline and a high level of capital spending efficiency in pursuit of low to medium risk drilling prospects. Additionally, we strive to complement our organic development activity with timely and strategic acquisition opportunities.

As we approach the final months of the year, we remain focused on executing our existing capital budget for 2011 of approximately \$600 million. This program should result in an annual production rate of approximately 70,000 boe per day. In addition, we are focused on rationalizing up to \$100 million of non-core assets over the next few quarters in an effort to continually high grade our asset base and enhance our financial flexibility. If successful, proceeds from our rationalization program will be used to expand our organic exploration and development programs in 2012.

While recent data indicates a slowly improving macroeconomic outlook, we acknowledge that commodity price volatility is likely to remain high causing concern over weak natural gas prices in the near term. With this in mind, we have established a conservative preliminary 2012 capital budget of between \$400 and \$425 million. This capital program will be entirely directed to our exploration and development initiatives within our core regions where we expect to drill between 140 and 150 wells. The majority of these wells will utilize horizontal drilling and multi-stage completion technology in the pursuit of unconventional resources. This level of activity is expected to result in 2012 production volumes of between 74,000 and 76,000 boe per day, an increase of between 6% and 9% over our average 2011 production guidance.

Facilitated by the efforts of our talented technical teams, Bonavista's inventory of future drilling prospects has more than doubled over the past three years to a current record level of approximately 1,430 locations representing approximately nine years of drilling inventory at the current pace of drilling. This inventory offers attractive economics in today's commodity price environment with approximately 85% targeting high impact, unconventional resource prospects with a focus on liquids rich natural gas and light oil.

As in years past, we will remain flexible with our capital expenditure plans in order to react to changes in commodity prices and the business environment. Furthermore, we will remain attentive to acquisition and disposition opportunities as we believe the increasing consolidation pressures in today's environment should benefit low cost operators with the financial flexibility and capital discipline to act accordingly.

We would like to thank our employees for their continued success in their efforts to execute an efficient capital expenditure program leading to a modest growth profile. Our core philosophy and key operating strategies have proven to work well throughout all phases of the business cycle and we look forward to continually creating long-term value for our shareholders. Our team is very committed to this vision.

### On behalf of the Board of Directors



Keith A. MacPhail  
Chairman and Chief Executive Officer



Jason E. Skehar  
President and Chief Operating Officer

November 3, 2011  
Calgary, Alberta

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis ("MD&A") of the financial condition and results of operations should be read in conjunction with Bonavista Energy Corporation's ("Bonavista" or the "Corporation") audited consolidated financial statements and MD&A for the year ended December 31, 2010. The following MD&A of the financial condition and results of operations was prepared at, and is dated November 3, 2011. Our audited consolidated financial statements, Annual Report, and other disclosure documents for 2010 are available through our filings on SEDAR at [www.sedar.com](http://www.sedar.com) or can be obtained from Bonavista's website at [www.bonavistaenergy.com](http://www.bonavistaenergy.com).

**Basis of Presentation** - The financial data presented below has been prepared in accordance with the International Accounting Standards Board ("IASB") most current International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS").

The interim consolidated financial statement note disclosures do not include all of those required by IFRS applicable for annual financial statements, however do meet the requirements of IAS34 regarding Interim Reporting.

For the purpose of calculating unit costs, natural gas is converted to a barrel of oil equivalent ("boe") using six thousand cubic feet of natural gas equal to one barrel of oil unless otherwise stated. A boe may be misleading, particularly if used in isolation. A boe conversion of 6 Mcf to one barrel is based on an energy equivalent conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

**Forward-Looking Statements** - Certain information set forth in this document, including management's assessment of Bonavista's future plans and operations, contains forward-looking statements including: (i) forecasted capital expenditures; (ii) exploration, drilling and development plans, (iii) prospects and drilling inventory; (iv) anticipated production rates; (v) expected royalty rate; (vi) anticipated operating and service costs; (vii) our financial strength; (viii) incremental development opportunities; (ix) future drilling locations; (x) capital spending plans; (xi) reserve life index; (xii) total shareholder return; (xiii) growth prospects; (xiv) asset disposition plans; (xv) sources of funding, which are provided to allow investors to better understand our business. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond Bonavista's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, changes in environmental tax and royalty legislation, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Bonavista's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements or if any of them do so, what benefits that Bonavista will derive there from. Bonavista disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

**Non-IFRS Measurements** - Within Management's discussion and analysis, references are made to terms commonly used in the oil and natural gas industry. Management uses "funds from operations" and the "ratio of debt to funds from operations" to analyze operating performance and leverage. Funds from operations as presented does not have any standardized meaning prescribed by IFRS and therefore it may not be comparable with the calculation of similar measures for other entities. Funds from operations as presented is not intended to represent operating cash flow or operating profits for the period nor should it be viewed as an alternative to cash flow from operating activities, net income or other measures of financial performance calculated in accordance with IFRS. All references to funds from operations throughout this report are based on cash flow from operating activities before changes in non-cash working capital, abandonment expenditures and interest expense. Basic funds from operations per share is calculated based on the weighted average number of common shares outstanding in accordance with International Financial Reporting Standards. For the comparative periods under the trust structure, exchangeable shares have been included in the basic funds from operations per share calculation. Operating netbacks equal production revenue and realized gains or losses on financial instrument contracts, less royalties, transportation and operating expenses calculated on a boe basis. Total boe is calculated by multiplying the daily production by the number of days in the period. Management uses these terms to analyze operating performance and leverage.

**Operations** - Bonavista's exploration and development program for the first nine months ended September 30, 2011 led to the drilling of 114 wells within our core regions with a success rate of 100%. This program resulted in 52 natural gas wells and 62 oil wells. Profitability continues to guide our exploration and development program which remains flexible to changes in commodity price, development risk and deliverability upside. Despite incurring some cost pressures throughout the year and into the quarter due to an increase in industry activity, our exploration and development operations in the third quarter have resulted in favorable capital efficiencies driving strong production performance and healthy reserve additions. Many of these projects have delivered solid rates of return and have reinforced our confidence in the predictability and repeatability of our extensive drilling inventory.

**Production** - For the third quarter of 2011, total production increased 5% to 71,636 boe per day when compared to 68,029 boe per day for the same period a year ago, despite experiencing some wet weather conditions in July and unexpected turnaround activities throughout the quarter. Natural gas production increased 7% to 266 mmcf per day in the third quarter of 2011 from 248 mmcf per day for the same period a year ago, while natural gas liquids production increased 12% to 13,319 bbls per day in the third quarter of 2011 from 11,870 bbls per day for the same period in 2010. Oil production decreased 5% to 13,941 bbls per day in the third quarter of 2011 from 14,743 bbls per day for the same period in 2010. Oil production, however, increased 5% when compared to the second quarter of 2011 with an increased focus on oil opportunities in the second half of 2011. We anticipate this recent increase in oil production to continue throughout the fourth quarter. For the nine months ended September 30, 2011, production increased 4% to 67,971 boe per day when compared to 65,569 boe per day for the same period a year ago. Natural gas production increased 6% to 251 mmcf per day in the first nine months of 2011 from 237 mmcf per day for the same period a year ago, while natural gas liquids production increased 9% to 12,305 bbls per day in the first nine months of 2011 from 11,284 bbls per day for the same period in 2010. Oil production decreased 6% to 13,786 bbls per day in the first nine months of 2011 from 14,726 bbls per day for the same period in 2010 for similar reasons as described above.

The following table highlights Bonavista's production by product for the three and nine months ended September 30:

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Natural gas (mmcf/day)	266	248	251	237
Natural gas liquids (bbls/day)	13,319	11,870	12,305	11,284
Oil (bbls/day)	13,941	14,743	13,786	14,726
Total oil equivalent (boe/day)	71,636	68,029	67,971	65,569

Bonavista's balanced commodity investment approach minimizes our dependence on any one product and has generated consistent results in the quarter. Our current production is approximately 75,000 boe per day, consisting of 61% natural gas, 19% natural gas liquids and 20% crude oil and our reserve life index ("RLI") has been maintained at approximately 12 years.

**Production revenues** - Production revenues for the third quarter of 2011 increased 19% to \$264.3 million when compared to \$222.7 million for the same period a year ago, largely due to higher realized oil and natural gas liquids pricing. For the three months ended September 30, 2011, our natural gas price increased slightly to \$4.13 per mcf, when compared to \$4.12 per mcf realized in the same period in 2010. Natural gas liquids price increased 35% to \$55.08 per bbl for the three months ended September 30, 2011 from \$40.85 per bbl for the same period in 2010. For the three months ended September 30, 2011, oil price increased 18% to \$77.95 per bbl, compared to \$66.10 per bbl for the same period a year ago. For the nine months ended September 30, 2011, our natural gas price decreased 10% to \$4.19 per mcf, when compared to \$4.65 per mcf realized in the same period in 2010. Natural gas liquids price increased 19% to \$53.61 per bbl from \$44.96 per bbl for the same period in 2010. For the nine months ended September 30, 2011, oil price increased 16% to \$79.34 per bbl, compared to \$68.44 per bbl for the same period a year ago.

The following table highlights Bonavista's realized commodity pricing for the three and nine months ended September 30:

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Natural gas (\$/mcf):				
Production revenues	\$ 3.95	\$ 3.88	\$ 4.02	\$ 4.49
Realized gain on financial instrument contracts	0.18	0.24	0.17	0.16
	4.13	4.12	4.19	4.65
Natural gas liquids (\$/bbl):				
Production revenues	55.08	40.85	53.61	44.96
Realized gain on financial instrument contracts	-	-	-	-
	55.08	40.85	53.61	44.96
Oil (\$/bbl):				
Production revenues	77.99	66.02	80.51	68.29
Realized gain/(loss) on financial instrument contracts	(0.04)	0.08	(1.17)	0.15
	77.95	66.10	79.34	68.44
Total (\$/boe):				
Production revenues	40.11	35.58	40.92	39.33
Realized gain on financial instrument contracts	0.65	0.91	0.37	0.62
	\$ 40.76	\$ 36.49	\$ 41.29	\$ 39.95

**Risk management activities** - As part of our financial management strategy, Bonavista has adopted a disciplined commodity price risk management program. The purpose of this program is to stabilize funds from operations against volatile commodity prices and protect acquisition economics. Bonavista's Board of Directors has approved a commodity price risk management limit of 60% of forecast production, net of royalties, primarily using costless collars. Our strategy of using costless collars limits Bonavista's exposure to downturns in commodity prices, while allowing for participation in commodity price increases. In addition to our commodity price risk management program, in the third quarter of 2011 we entered into a foreign exchange forward contract whereby we limit the amount of US dollar exposure we have on the repayment of our US senior unsecured notes.

For the third quarter of 2011, our risk management program on financial instrument contracts resulted in a gain of \$30.8 million, consisting of a realized gain of \$4.3 million and an unrealized gain of \$26.5 million. The realized gain of \$4.3 million was derived primarily from natural gas commodity derivative contracts. For the same period in 2010, our risk management program on financial instrument contracts resulted in a net gain of \$3.2 million, consisting of a realized gain of \$5.7 million and an unrealized loss of \$2.5 million. The realized gain of \$5.7 million consisted of a \$5.6 million gain on natural gas commodity derivative contracts and a \$108,000 gain on crude oil commodity derivative contracts. For the nine months ended September 30, 2011, our risk management program on financial instrument contracts resulted in a net gain of \$37.9 million, consisting of a realized gain of \$7.0 million and an unrealized gain of \$30.9 million. The realized gain of \$7.0 million consisted of an \$11.4 million gain on natural gas commodity derivative contracts and a \$4.4 million loss on crude oil commodity derivative contracts. For the same period in 2010, our risk management program on financial instruments resulted in a net gain of \$35.9 million, consisting of a realized gain of \$11.2 million and an unrealized gain of \$24.8 million. The realized gain of \$11.2 million consisted of a \$10.6 million gain on natural gas commodity derivative contracts and a \$600,000 gain on crude oil commodity derivative contracts.

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted not only by global economic events that dictate the levels of supply and demand but also by the relationship between the Canadian and United States dollar. Bonavista has attempted to mitigate a portion of both its commodity price risk and foreign exchange risk through the use of various financial instrument contracts and physical delivery sales contracts.

i) Financial instrument contracts:

As at September 30, 2011, Bonavista entered into the following costless collars to sell natural gas and crude oil as follows:

Volume		Average Price	Term
15,000	gjs/d	CDN\$4.03 - CDN\$5.13 - AECO	October 1, 2011 - October 31, 2011
5,000	gjs/d	CDN\$4.50 - CDN\$7.24 - AECO	October 1, 2011 - October 31, 2011
10,000	gjs/d	CDN\$5.25 - CDN\$7.20 - AECO	October 1, 2011 - December 31, 2011
20,000	gjs/d	CDN\$3.71 - CDN\$4.48 - AECO	April 1, 2012 - October 31, 2012
9,500	bbls/d	CDN\$79.58 - CDN\$97.09 - WTI	October 1, 2011 - December 31, 2011
5,500	bbls/d	CDN\$84.09 - CDN\$109.20 - WTI	January 1, 2012 - December 31, 2012

Subsequent to September 30, 2011, Bonavista entered into the following costless collar to sell crude oil as follows:

Volume		Average Price	Term
1,000	bbls/d	CDN\$77.50 - CDN\$100.00 - WTI	January 1, 2012 - December 31, 2012
500	bbls/d	CDN\$80.00 - CDN\$101.25 - WTI	January 1, 2012 - June 30, 2012
500	bbls/d	CDN\$80.00 - CDN\$105.00 - WTI	July 1, 2012 - December 31, 2012

As at September 30, 2011, Bonavista entered into the following option contracts to manage its overall commodity exposure:

Volume		Price	Contract	Term
33,000	gjs/d	CDN\$4.01	Swap - AECO	October 1, 2011 - October 31, 2011
10,000	gjs/d	CDN\$6.45	Sold Call - AECO	October 1, 2011 - October 31, 2011
5,000	mmbtu/d	(USD\$0.45)	Basis Swap - NYMEX	January 1, 2012 - December 31, 2012
1,000	bbls/d	CDN\$100.00	Sold Call - WTI	October 1, 2011 - December 31, 2011
500	bbls/d	USD\$102.50	Sold Call - WTI	October 1, 2011 - December 31, 2011
500	bbls/d	USD\$105.00	Sold Call - WTI	October 1, 2011 - December 31, 2011
1,000	bbls/d	CDN\$105.00	Sold Call - WTI	January 1, 2012 - December 31, 2012

Subsequent to September 30, 2011, Bonavista entered into the following swap option contract:

Volume		Price	Contract	Term
5,000	mmbtu/d	(USD\$0.45)	Basis Swap - NYMEX	January 1, 2012 - December 31, 2012

As at September 30, 2011, Bonavista entered into the following foreign exchange forward contracts to manage its currency risk associated with its repayment of its US senior unsecured notes:

Forward date	Contract	Notional US\$	CDN\$/US\$
November 2, 2017	USD purchased forward	\$30,000,000	0.995
November 2, 2020	USD purchased forward	\$53,300,000	0.995
November 2, 2022	USD purchased forward	\$16,500,000	0.995

Financial instrument contracts are recorded on the consolidated statements of financial position at fair value at each reporting period with the change in fair value being recognized as an unrealized gain or loss on the consolidated statements of income and comprehensive income. As at September 30, 2011, the fair market value recorded on the consolidated statement of financial position for these financial instrument contracts was a net asset of \$25.2 million, compared to a net asset of \$15.2 million as at September 30, 2010. These financial instrument contracts had the following gains and losses reflected in the consolidated statements of income and comprehensive income:

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Realized gains on financial instrument contracts	\$ 4,258	\$ 5,700	\$ 6,954	\$ 11,153
Unrealized gains (losses) on financial instrument contracts	26,493	(2,516)	30,906	24,788
	\$ 30,751	\$ 3,184	\$ 37,860	\$ 35,941

Bonavista mitigates its risk associated with fluctuations in commodity prices by utilizing financial instrument contracts. A \$0.10 change in the price per thousand cubic feet of natural gas - AECO would have an impact of approximately \$400,000 on net income for those financial instrument contracts that were in place as at September 30, 2011. A \$1.00 increase in the price per barrel of oil - WTI would have a negative impact of approximately \$1.3 million on net income for those financial instrument contracts that were in place as at September 30, 2011. A \$1.00 decrease in the price per barrel of oil - WTI would have a positive impact of approximately \$1.2 million on net income for those financial instrument contracts that were in place as at September 30, 2011. Bonavista mitigates its currency risk associated with its repayment of its US senior unsecured notes by utilizing foreign exchange forward contracts. A \$0.01 change in CDN\$/US\$ exchange rate would have an impact of approximately \$600,000 on net income for those foreign exchange forward contracts in place as at September 30, 2011.

ii) Physical purchase and sale contracts:

As at September 30, 2011, Bonavista entered into the following physical contracts to sell natural gas as follows:

Volume	Average Price	Term
10,000 gjs/d	CDN\$5.13 - CDN\$6.99 - AECO	October 1, 2011 - December 31, 2011
19,500 gjs/d	CDN\$3.95 - AECO	October 1, 2011 - October 31, 2011
5,000 mmbtu/d	(USD\$0.45) - Basis Swap Nymex	January 1, 2012 - December 31, 2012

As at September 30, 2011, Bonavista entered into the following contracts to purchase electricity as follows:

Volume	Average Price	Term
6 mw/h	CDN\$50.37 - AESO	October 1, 2011 - December 31, 2011
1 mw/h	CDN\$51.00 - AESO	October 1, 2011 - December 31, 2012

Physical purchase and sale contracts are being accounted for as they are settled.

**Royalties** - For the three months ended September 30, 2011, royalties increased by 28% to \$42.5 million from \$33.1 million for the same period a year ago, largely attributable to higher oil and natural gas liquids royalties as a result of an 18% increase in oil pricing and a 35% increase in natural gas liquids pricing. In addition, royalties as a percentage of revenues (including realized gains and losses on financial instrument commodity contracts) for the third quarter of 2011 increased to 15.8% compared to 14.5% in same period in 2010. The increase in royalty rates is largely due to the reasons indicated above. For the nine months ended September 30, 2011, royalties increased by 8% to \$116.8 million from \$108.4 million for the same period a year ago, largely due to a significant increase in oil and natural gas liquids royalties offset by lower natural gas royalties as a result of a 10% decrease in natural gas pricing. In addition, royalties as a percentage of revenues (including realized gains and losses on financial instrument commodity contracts) for the first nine months of 2011 remained the same compared to the 15.2% realized in 2010.

The following table highlights Bonavista's royalties by product for the three and nine months ended September 30:

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Natural gas (\$/mcf):				
Royalties	0.33	0.40	0.31	0.46
% of revenues <sup>(1)</sup>	8.1%	9.8%	7.4%	10.0%
Natural gas liquids (\$/bbl):				
Royalties	13.01	8.60	12.76	10.34
% of revenues <sup>(1)</sup>	23.6%	21.0%	23.8%	23.0%
Oil (\$/bbl):				
Royalties	14.33	10.69	14.00	11.59
% of revenues <sup>(1)</sup>	18.4%	16.2%	17.7%	16.9%

<sup>(1)</sup> % of revenues include realized gains and losses on financial instrument commodity contracts

**Operating expenses** - Operating expenses for the three months ended September 30, 2011 increased 30% to \$63.2 million compared to \$48.5 million for the same period a year ago, and on a per boe basis increased 24% to \$9.60 per boe, from \$7.75 per boe in the comparable period in 2010. Absolute and per unit operating costs have increased throughout the third quarter of 2011 as a result of turnaround activity, continued increase in the demand for services and above normal precipitation levels challenging access to many of our operations. Furthermore, electricity costs have increased 80% in comparison to the same period in 2010 largely as a result of unexpected reduction in electrical generation capacity within Alberta. For the nine months ended September 30, 2011 operating costs increased 15% to \$166.6 million compared to \$145.3 million for the same period a year ago and on a per boe basis increased 11% to \$8.98 per boe, from \$8.12 per boe in the comparable period in 2010 for similar reasons as stated above.

The following table highlights Bonavista's operating expenses by product for the three and nine months ended September 30:

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Natural gas (\$/mcf)	\$ 1.38	\$ 1.08	\$ 1.29	\$ 1.14
Natural gas liquids (\$/bbl)	10.76	8.65	10.03	9.05
Oil (\$/bbl)	12.67	10.59	11.76	10.87
Total (\$/boe)	\$ 9.60	\$ 7.75	\$ 8.98	\$ 8.12

**Transportation expenses** - For the three months ended September 30, 2011, transportation expenses decreased 4% to \$10.1 million compared to \$10.5 million for the same period in 2010 and on a per boe basis have decreased 9% to \$1.53 per boe from \$1.68 per boe in the same period in 2010. This decrease in transportation costs is largely due to cost savings related to entering into longer term natural gas transportation commitments. For the nine months ended September 30, 2011, transportation expenses increased slightly to \$29.1 million compared to \$29.0 million for the same period in 2010 and on a per boe basis have decreased 3% to \$1.57 per boe from \$1.62 per boe in the same period in 2010, for similar reasons as discussed above.

The following table highlights Bonavista's transportation costs by product for the three and nine months ended September 30:

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Natural gas (\$/mcf)	\$ 0.28	\$ 0.32	\$ 0.29	\$ 0.31
Natural gas liquids (\$/bbl)	0.96	0.47	0.80	0.54
Oil (\$/bbl)	1.67	1.92	1.77	1.87
Total (\$/boe)	\$ 1.53	\$ 1.68	\$ 1.57	\$ 1.62

**General and administrative expenses** - General and administrative expenses, after overhead recoveries, increased 19% to \$6.3 million for the three months ended September 30, 2011 from \$5.3 million in the same period in 2010 and increased 15% to \$17.8 million for the nine months ended September 30, 2011 from \$15.5 million in the same period in 2010. On a per boe basis, general and administrative expenses increased 13% for the three months ended September 30, 2011 to \$0.95 per boe from \$0.84 per boe in the same period in 2010 and increased 12% to \$0.96 per boe for the nine months ended September 30, 2011 from \$0.86 per boe in the same period in 2010. These increases are largely due to higher costs of personnel and head office premises required to manage our growing operations and our restructuring from a trust to a corporate entity. Our current rate of general and administrative expenses on a per boe basis remains among the lowest in our sector.

In connection with its stock option and common share rights incentive plan and restricted share award and restricted common share incentive plan, Bonavista recorded a share-based compensation charge of \$3.8 million and \$10.9 million for the three and nine months ended September 30, 2011, respectively, compared to \$4.3 million and \$10.0 million for the same periods in 2010.

**Depletion, depreciation and amortization expenses** - Under IFRS, Bonavista uses total proved plus probable reserves as its depletion base to calculate depletion expense. Depletion, depreciation and amortization expenses increased 15% to \$81.8 million for the three months ended September 30, 2011 from \$71.0 million for the same period in 2010. For the nine months ended September 30, 2011, depreciation, depletion and amortization expenses increased 6% to \$212.5 million from \$200.8 million for the same period in 2010. For the three months ended September 30, 2011, the average charge increased 9% to \$12.41 per boe from \$11.34 per boe for the same period in 2010 and for the nine months ended September 30, 2011, the average charge increased 2% to \$11.45 per boe from \$11.22 per boe for the same period a year ago.

**Net financing costs** - Net financing costs decreased 20% to \$34.3 million for the three months ended September 30, 2011 from \$42.7 million for the same period in 2010. The decrease in financing costs for the third quarter of 2011 compared to the same period in 2010 is largely attributed to a reclassification of the exchangeable shares to shareholders' equity on conversion to a corporation on December 31, 2010. This reduction was, however, offset by a foreign exchange loss recorded in the third quarter of 2011. Net financing costs decreased 41% to \$51.5 million for the nine months ended September 30, 2011 from \$87.3 million for the same period in 2010. This decrease occurred in 2011 for the same reasons as discussed above.

**Deferred income taxes** - The provision for deferred income taxes increased to \$15.2 million for the three months ended September 30, 2011 from an income tax recovery of \$1.8 million during the same period in 2010. For the nine months ended September 30, 2011, the provision for deferred income taxes was \$51.7 million compared to a deferred income tax provision of \$13.5 million for the same period in 2010. Under the previous Trust structure, the distributions made by the Trust were deductible in determining the Trust's taxable income and accordingly reduced the overall provision for deferred income taxes for the nine months ended September 30, 2010. The deferred income tax provision for the third quarter of 2011 is higher than the provision calculated using the expected rate as a result of the income tax treatment of foreign currency translation losses on long-term debt. Bonavista made no cash payments on tax installments for the three and nine months ended September 30, 2011 or for the comparative periods in 2010.

**Funds from operations, net income and comprehensive income** - For the three months ended September 30, 2011, Bonavista experienced a 9% increase in funds from operations to \$134.8 million (\$0.84 per share, basic) from \$123.6 million (\$0.79 per share, basic) for the same period in 2010. For the nine months ended September 30, 2011, Bonavista experienced a 1% increase in funds from operations to \$402.5 million (\$2.53 per unit, basic) from \$399.7 million (\$2.62 per share, basic) for the same period in 2010. Funds from operations increased for the three months ended September 30, 2011 due to an increase in production volumes and higher oil and natural gas liquids prices. Net income and comprehensive income for the three months ended September 30, 2011, increased 26% to \$31.2 million (\$0.19 per share, basic) from \$24.7 million (\$0.18 per share, basic) for the same period in 2010, largely due to the changes in the unrealized gains and losses on financial instrument contracts. Net income and comprehensive income for the nine months ended September 30, 2011, decreased 6% to \$140.5 million (\$0.88 per share, basic) from \$149.1 million (\$1.15 per share, basic) for the same period in 2010, largely due an increase in deferred income taxes as a result of our conversion from a trust to a corporation.

The following table is a reconciliation of a non-IFRS measure, funds from operations, to its nearest measure prescribed by IFRS:

Calculation of Funds From Operations:	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
(thousands)				
Cash flow from operating activities	\$ 131,220	\$ 141,661	\$ 422,016	\$ 415,739
Interest expense	(11,744)	(7,371)	(33,468)	(17,316)
Decommissioning expenditures	5,924	4,256	15,163	8,819
Changes in non-cash working capital	9,372	(14,984)	(1,251)	(7,513)
Funds from operations	\$ 134,772	\$ 123,562	\$ 402,460	\$ 399,729

**Capital expenditures** - Capital expenditures for the three months ended September 30, 2011 were \$224.0 million, consisting of \$123.8 million spent on exploration and development activities, \$95.5 million spent on the purchase of a private oil and natural gas company, \$4.0 million spent on net property acquisitions and \$734,000 spent on head office expenditures. For the same period in 2010, capital expenditures were \$99.8 million, consisting of \$84.4 million spent on exploration and development activities, net property acquisitions of \$15.2 million and \$287,000 incurred on head office expenditures. Capital expenditures for the nine months ended September 30, 2011 were \$479.1 million, consisting of \$372.5 million spent on exploration and development activities, \$95.5 million spent on the purchase of a private oil and natural gas company, property acquisitions of \$18.4 million and property dispositions of \$17.5 million. Bonavista also incurred head office expenditures of \$10.2 million primarily related to leasehold improvements on its new head office premises. For the same period in 2010 capital expenditures were \$515.4 million, consisting of \$254.0 million spent on exploration and development activities, net property acquisitions of \$260.3 million and \$1.0 million incurred on head office expenditures. A significant increase in the demand for drilling and completion services has resulted in an overall increase in costs year over year. We will continue to monitor the situation carefully, making adjustments where appropriate, and will rely heavily on our relationships that we have cultivated over the past 14 years.

**Liquidity and capital resources** - As at September 30, 2011, long-term debt including working capital (excluding associated assets and liabilities from financial instrument commodity contracts) was \$1.1 billion with a debt to third quarter 2011 annualized funds from operations ratio of 2.0:1. Bonavista has significant flexibility to finance future expansions of its capital programs, through the use of its current funds generated from operations and its debt facilities. As at September 30, 2011, Bonavista had approximately \$403.0 million of unused borrowing capacity from its \$1.0 billion bank credit facility.

On October 25, 2011, Bonavista and its syndicate of 11 domestic and international banks agreed to extend Bonavista's bank credit facility to September 10, 2015, with no principal repayments required until then. The bank loan facility is a four year revolving facility and may at the request of Bonavista and the consent of the lenders, be extended on an annual basis beyond the existing term. In addition the lenders approved to increase the bank loan facility by \$250 million on the participation of any existing or additional lenders.

Under the terms of the credit facility, Bonavista has provided the covenant that its: (i) consolidated senior debt borrowing will not exceed three times net income before unrealized gains and losses on financial instrument contracts and marketable securities, interest, taxes and depreciation, depletion and amortization; (ii) consolidated total debt will not exceed three and one half times consolidated net income before unrealized gains and losses on financial instrument contracts and marketable securities, interest, taxes and depreciation, depletion and amortization; and (iii) consolidated senior debt borrowing will not exceed one-half of consolidated total debt plus consolidated shareholders' equity of the Corporation, in all cases calculated based on a rolling prior four quarters.

In addition, on October 25, 2011, Bonavista issued US\$150 million senior unsecured notes. These notes have a coupon rate of 4.25% and a term of 10 years and rank equally with Bonavista's obligations under its bank credit facility and existing senior unsecured notes. Proforma with this issue Bonavista will have approximately \$560 million of unused borrowing capacity as at September 30, 2011.

In 2011, Bonavista plans to invest approximately \$600 million on its capital program within its core regions. Bonavista intends on financing this capital program with a combination of funds from operations, its recent equity financing of approximately \$200 million and to the extent required, its existing bank credit facility. Going forward, Bonavista remains committed to the fundamental principle of maintaining financial flexibility and the prudent use of debt.

**Shareholders' equity** - As at September 30, 2011, Bonavista had 165.0 million equivalent common shares outstanding. This includes 20.4 million exchangeable shares, which are exchangeable into 21.1 million common shares. The exchange ratio in effect at September 30, 2011 for exchangeable shares was 1.03410:1. As at November 3, 2011, Bonavista had 165.1 million equivalent common shares outstanding. This includes 20.3 million exchangeable shares, which are exchangeable into 21.2 million common shares. The exchange ratio in effect at November 3, 2011 for exchangeable shares was 1.03943:1. In addition, Bonavista has 5.3 million stock option and common share incentive rights outstanding at November 3, 2011, with an average exercise price of \$22.41 per common share.

**Dividends** - For the three months ended September 30, 2011, Bonavista declared dividends of \$50.8 million (\$0.36 per share) compared to \$64.1 million (\$0.48 per share) in the same period in 2010. For the nine months ended September 30, 2011, Bonavista declared dividends of \$148.2 million (\$1.08 per share) compared to \$188.1 million (\$1.44 per share) in the same period in 2010. Bonavista's dividend policy is constantly monitored and is dependent upon its forecasted production, commodity prices, funds from operations, debt levels and capital expenditures. Within a dividend paying corporate structure, Bonavista is well positioned to provide our shareholders a combination of sustainable growth and meaningful income. While the proven underlying operating strategies of Bonavista will remain intact, our business model has been designed to deliver long-term total shareholder returns of between 10% and 15% per annum.

Bonavista announces its dividend policy on a quarterly basis and confirms its dividend payment on a monthly basis. Dividends are determined by the Board of Directors and are dependent upon the commodity price environment, production levels, and the amount of capital expenditures to be financed from funds from operations. Our long-term objective is to distribute between 25% and 35% of funds from operations, which allows us to withhold sufficient funds to finance capital expenditures required to modestly grow our production base at current pricing. Our current dividend rate of \$0.12 per share per month will place us at the upper end of this targeted level for the year assuming current strip prices are realized.

**Quarterly financial information** - The following table highlights Bonavista's performance for the eight quarterly periods ending on December 31, 2009 to September 30, 2011:

	2011				2010			2009 <sup>(1)</sup>
	September 30	June 30	March 31	December 31	September 30	June 30	March 31	December 31
(\$ thousands, except per share amounts)								
Production revenues	264,349	256,100	238,798	234,706	222,656	227,732	253,632	232,870
Net income	31,166	77,318	32,021	(66,784)	24,695	67,779	56,598	39,647
Net income per share:								
Basic	0.19	0.49	0.20	(0.50)	0.18	0.51	0.45	0.27
Diluted	0.19	0.49	0.20	(0.50)	0.18	0.43	0.45	0.27

<sup>(1)</sup> The amounts for 2009 are non-adjusted Canadian GAAP calculations. The comparative amounts for 2010 have been adjusted to comply with IFRS.

Production revenues over the past eight quarters have fluctuated largely due to the volatility of commodity prices and increasing production volumes. Net income in the past eight quarters has fluctuated from a deficit of \$66.8 million in the fourth quarter of 2010 to a high of \$77.3 million in the second quarter of 2011. These fluctuations are primarily influenced by production volumes, commodity prices, realized and unrealized gains and losses on financial instrument contracts and marketable securities; gains and losses on foreign exchange; fluctuations due to the fair market value of exchangeable shares and share-based compensation; and future income tax recoveries associated with the reduction in corporate income tax rates. On December 31, 2010, Bonavista completed its conversion from an energy trust to a corporation, thus eliminating the fluctuations in net income due to changes in the fair market value of exchangeable shares and share-based compensation as prepared in accordance with IAS 34 Interim Financial Reporting.

**Disclosure controls and procedures** - Disclosure controls and procedures have been designed to ensure that information to be disclosed by Bonavista is accumulated and communicated to management, as appropriate, to allow timely decisions regarding required disclosures. The Chief Executive Officer and Chief Financial Officer have concluded, as of the end of the period covered by the interim and year end filings, that Bonavista's disclosure controls and procedures are appropriately designed and operating effectively to provide reasonable assurance that material information relating to the issuer is made known to them by others within the Corporation.

**Internal control over financial reporting** - Internal control over financial reporting is a process designed to provide reasonable assurance that all assets are safeguarded, transactions are appropriately authorized and to facilitate the preparation of relevant, reliable and timely information. 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. Management has assessed the effectiveness of Bonavista's internal control over financial reporting as defined by National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. Management has concluded that their internal control over financial reporting was effective as of September 30, 2011. There were no material changes to the internal controls over financial reporting during the three months ended September 30, 2011.

**Adoption of International Financial Reporting Standards (“IFRS”)** - These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. These condensed consolidated interim financial statements are for part of the period covered by the first IFRS annual financial statements and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

An explanation of how the transition to IFRS has affected the reported consolidated financial position, financial performance and cash flows of the Corporation is provided in note 13. This note includes reconciliations of equity and total comprehensive income for comparative periods reported under Canadian GAAP (previous GAAP) to those reported for those periods, along with details of the IFRS 1 exemptions taken. The adoption of IFRS does not impact the underlying economics of Bonavista’s operations or its cash flows.

**Future accounting policies** - Bonavista has reviewed the new and revised accounting standards issued by the International Accounting Standard Board (“IASB”) as at September 30, 2011, but not yet effective for financial statements for annual periods beginning on or after January 1, 2011. Each of these standards is to be adopted for fiscal years beginning January 1, 2013 with earlier adoption permitted.

- IFRS 9 “Financial Instruments” - replaces the guidance in IAS 39 “Financial Instruments: Recognition and Measurement.” This standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables. IFRS 9 will require financial assets to be classified into two categories: amortized cost and fair value.
- IFRS 10, “Consolidated Financial Statements” supersedes IAS 27 “Consolidation and Separate Financial Statements” and SIC-12 “Consolidation - Special Purpose Entities”. This standard provides a single model to be applied in control analysis for all investees including special purpose entities.
- IFRS 11, “Joint Arrangements” are classified into two types, either joint operations or joint ventures, each with their own accounting treatment. All joint arrangements are required to be reassessed on transition to IFRS 11 to determine their type to apply the appropriate accounting.
- IFRS 12, “Disclosure of Interest in Other Entities” combines the disclosure requirements for entities that have interest in subsidiaries, joint arrangements, associates as well as unconsolidated structured entities.
- IFRS 13, “Fair Value Measurement” establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Bonavista is currently analyzing the expected impact, if any, that the adoption of these standards will have on its Consolidated Financial Statements.

**Critical accounting estimates** - The consolidated financial statements have been prepared in accordance with IFRS. A summary of the significant accounting policies are presented in note 2 of the Notes to the Consolidated Financial Statements. Certain Accounting policies are critical to understanding the financial condition and results of operations of Bonavista.

- a) **Proved and probable oil and natural gas reserves** - Reserve estimates are based on engineering data, estimated future prices, expected future rates of production and the timing of future capital expenditures, all of which are subject to interpretation and uncertainty. Bonavista expects that over time its reserve estimates will be revised either upward or downward depending upon the factors as stated above. These reserve estimates can have a significant impact on net income, as it is a key component in the calculation of depletion, depreciation and amortization, and also for the determination of potential asset impairments.
- b) **Depreciation, depletion and amortization** - Property, plant and equipment is measured at cost less accumulated depreciation, depletion and amortization. Bonavista's oil and natural gas properties are depleted using the unit-of-production method over proved and probable reserves for each cash-generating unit (CGU). The unit-of-production method takes into account capital expenditures incurred to date along with future development capital required to develop both proved and probable reserves.
- c) **Impairment** - Bonavista assesses its property, plant and equipment for impairment when events or circumstances indicate that the carrying value of its assets may not be recoverable. If any indication of impairment exists, Bonavista performs an impairment test on the CGU which is the lowest at which there are identifiable cash flows. The determination of fair value at the CGU level again requires the use of judgements and estimates that include quantities of reserves and future production, future commodity pricing, development costs, operating costs and royalty obligations. Any changes in these items may have an impact on the fair value of the assets.
- d) **Decommissioning liabilities** - Bonavista estimates its decommissioning liabilities based upon existing laws, contracts or other policies. The estimated present value of our decommissioning obligations are recognized as a liability in the period in which they occur. The provision is calculated by discounting the expected future cash flows to settle the obligations at the risk-free interest rate. The liability is adjusted each reporting period to reflect the passage of time, with accretion charged to net income, any other changes whether it be changes in interest rates or changes in estimated future cash flows are capitalized to property, plant and equipment.
- e) **Income taxes** - The determination of Bonavista's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded.

**BONAVISTA ENERGY CORPORATION**

## Condensed Consolidated Interim Statements of Financial Position

(thousands)	Notes	September 30, 2011	December 31, 2010
(unaudited)			
<b>Assets:</b>			
Current assets:			
Accounts receivable		\$ 132,620	\$ 114,430
Prepaid expenses		10,980	14,510
Financial instrument contracts	(3)	16,798	11,413
Other assets		9,617	10,068
		170,015	150,421
Financial instrument contracts	(3)	9,522	-
Property, plant and equipment	(6,7)	3,324,875	3,043,223
Exploration and evaluation assets	(8)	236,242	219,590
Goodwill	(8)	31,321	31,321
		\$ 3,771,975	\$ 3,444,555
<b>Liabilities and Shareholders' Equity:</b>			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 200,810	\$ 186,447
Dividends payable		17,266	21,436
Financial instrument contracts	(3)	1,193	12,931
		219,269	220,814
Long-term debt	(10)	1,008,621	951,443
Decommissioning liabilities	(11)	325,414	319,096
Deferred income taxes		167,441	107,519
Financial instrument contracts	(3)	-	4,261
Shareholders' equity:	(9)		
Shareholders' capital		1,440,141	1,162,680
Exchangeable shares		587,192	650,668
Contributed surplus		31,574	28,074
Deficit		(7,677)	-
		2,051,230	1,841,422
		\$ 3,771,975	\$ 3,444,555

See accompanying notes to the condensed consolidated interim financial statements.

**BONAVISTA ENERGY CORPORATION**

## Condensed Consolidated Interim Statements of Income and Comprehensive Income

(thousands, except per share amounts)	Notes	Three months ended September 30,		Nine months ended September 30,	
(unaudited)		2011	2010	2011	2010
<b>Revenues:</b>					
Production		\$ 264,349	\$ 222,656	\$ 759,247	\$ 704,020
Royalties		(42,468)	(33,112)	(116,840)	(108,436)
		221,881	189,544	642,407	595,584
Realized gains on financial instrument commodity contracts	(3)	4,258	5,700	6,954	11,153
Unrealized gains (losses) on financial instrument commodity contracts	(3)	19,761	(2,516)	24,174	24,788
		24,019	3,184	31,128	35,941
		245,900	192,728	673,535	631,525
<b>Expenses:</b>					
Operating		63,248	48,523	166,586	145,261
Transportation		10,096	10,526	29,093	28,975
General and administrative		6,279	5,262	17,754	15,456
Share-based compensation		3,788	4,329	10,880	10,021
Loss (gain) on dispositions of property, plant and equipment		101	(12,465)	(7,021)	(18,813)
Depletion, depreciation and amortization		81,815	70,975	212,508	200,787
		165,327	127,150	429,800	381,687
Income from operating activities		80,573	65,578	243,735	249,838
Finance costs	(4)	40,988	44,237	58,259	90,278
Finance income	(4)	(6,732)	(1,540)	(6,732)	(3,006)
Net finance costs		34,256	42,697	51,527	87,272
Income before taxes		46,317	22,881	192,208	162,566
Deferred income taxes	(12)	15,151	(1,814)	51,703	13,494
<b>Net income and comprehensive income</b>		<b>\$ 31,166</b>	<b>\$ 24,695</b>	<b>\$ 140,505</b>	<b>\$ 149,072</b>
<b>Net income per share – basic</b>		<b>\$ 0.19</b>	<b>\$ 0.18</b>	<b>\$ 0.88</b>	<b>\$ 1.15</b>
<b>Net income per share – diluted</b>		<b>\$ 0.19</b>	<b>\$ 0.18</b>	<b>\$ 0.88</b>	<b>\$ 1.14</b>

See accompanying notes to the condensed consolidated interim financial statements.

**BONAVISTA ENERGY CORPORATION**

Condensed Consolidated Interim Statements of Changes in Equity  
For the nine months ended September 30

(thousands) (unaudited)	Shareholders' capital	Contributed surplus	Deficit	Total shareholders' equity
Balance as at January 1, 2010	\$ 1,533,919	\$ 123	\$ (414,056)	\$ 1,119,986
Net income for the period	-	-	149,072	149,072
Issuance of equity, net of issue costs	171,295	-	-	171,295
Issued on property acquisition	675	-	-	675
Issued for cash on exercise of common share incentive rights	14,010	-	-	14,010
Exercise of common share incentive rights	2,735	-	-	2,735
Conversion of restricted share awards	2,168	-	-	2,168
Exchangeable shares exchanged for common shares	16,433	-	-	16,433
Dividends declared	-	-	(188,056)	(188,056)
Balance as at September 30, 2010	\$ 1,741,235	\$ 123	\$ (453,040)	\$ 1,288,318

(thousands) (unaudited)	Shareholders' capital	Exchangeable shares	Contributed surplus	Deficit	Total shareholders' equity
Balance as at December 31, 2010	\$ 1,162,680	\$ 650,668	\$ 28,074	\$ -	\$ 1,841,422
Net income for the period	-	-	-	140,505	140,505
Issuance of equity, net of issue costs	193,597	-	-	-	193,597
Issued on business acquisition	928	-	-	-	928
Issued for cash on exercise of common share incentive rights	10,067	-	-	-	10,067
Exercise of common share incentive rights	5,830	-	(5,830)	-	-
Conversion of restricted share awards	3,563	-	(3,563)	-	-
Share-based compensation expense	-	-	10,880	-	10,880
Share-based compensation capitalized	-	-	2,013	-	2,013
Exchangeable shares exchanged for common shares	63,476	(63,476)	-	-	-
Dividends declared	-	-	-	(148,182)	(148,182)
Balance as at September 30, 2011	\$ 1,440,141	\$ 587,192	\$ 31,574	\$ (7,677)	\$ 2,051,230

See accompanying notes to the condensed consolidated interim financial statements.

**BONAVISTA ENERGY CORPORATION**  
Condensed Consolidated Interim Statements of Cash Flows

(thousands) (unaudited)	Notes	Three months ended September 30,		Nine months ended September 30,	
		2011	2010	2011	2010
<b>Cash provided by (used in):</b>					
<b>Operating Activities:</b>					
Net income		\$ 31,166	\$ 24,695	\$ 140,505	\$ 149,072
Adjustments for:					
Depletion, depreciation and amortization		81,815	70,975	212,508	200,787
Share-based compensation		3,788	4,329	10,880	10,021
Unrealized (gains) losses on financial instrument commodity contracts		(19,761)	2,516	(24,174)	(24,788)
Loss (gain) on dispositions of property, plant and equipment		101	(12,465)	(7,021)	(18,813)
Net finance costs		34,256	42,697	51,527	87,272
Deferred income taxes		15,151	(1,814)	51,703	13,494
Decommissioning expenditures		(5,924)	(4,256)	(15,163)	(8,819)
Changes in non-cash working capital items	(5)	(9,372)	14,984	1,251	7,513
		131,220	141,661	422,016	415,739
<b>Financing Activities:</b>					
Issuance of equity, net of issue costs		191,506	(146)	191,506	167,648
Issuance of senior notes		-	-	-	52,625
Repayment of convertible debentures		-	-	-	(38,567)
Proceeds on exercise of common share incentive rights		1,694	2,916	10,067	14,010
Dividends paid		(49,864)	(64,070)	(152,352)	(186,614)
Interest paid		(5,975)	(7,670)	(26,768)	(17,430)
Proceeds from long-term debt		-	29,894	88,579	117,581
Repayment of long-term debt		(47,113)	-	(47,113)	(27,128)
		90,248	(39,076)	63,919	82,125
<b>Investing Activities:</b>					
Business acquisition	(7)	(103,635)	-	(103,635)	-
Exploration and development		(123,756)	(84,370)	(372,515)	(254,031)
Office equipment and leasehold improvements		(734)	(287)	(10,150)	(1,056)
Property acquisitions		(4,380)	(34,300)	(18,373)	(285,028)
Property dispositions		403	19,132	17,473	25,388
Proceeds on sale of marketable securities		-	-	-	8,193
Changes in non-cash working capital items	(5)	10,634	(2,760)	1,265	8,670
		(221,468)	(102,585)	(485,935)	(497,864)
Change in cash		-	-	-	-
Cash, beginning of period		-	-	-	-
<b>Cash, end of period</b>		<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

See accompanying notes to the condensed consolidated interim financial statements.

# BONAVISTA ENERGY CORPORATION

## Notes to the Condensed Consolidated Interim Financial Statements

### For the three and nine months ended September 30, 2011 (unaudited)

#### Structure of the Corporation and Basis of Presentation:

The principal undertakings of Bonavista Energy Corporation, its predecessor Bonavista Energy Trust (the "Trust") and its subsidiaries, ("Bonavista" or the "Corporation"), are to carry on the business of acquiring, developing and holding interests in oil and natural gas properties and assets. On December 31, 2010, the Trust effectively completed its conversion from a trust to a corporation pursuant to a plan of arrangement (the "Arrangement") under Section 193 of the *Business Corporations Act* (Alberta) that was approved by securityholders at the Joint Special Meeting of Securityholders of the Trust and Bonavista Petroleum Ltd. on December 14, 2010. On December 31, 2010, the Trust and Bonavista Petroleum Ltd. were merged into the Corporation. Unitholders of the Trust received one common share of the Corporation for each trust unit held, in addition, exchangeable shareholders of Bonavista Petroleum Ltd. received 2.40917 exchangeable shares of the Corporation for each exchangeable share held. The Board of Directors and senior management of the Trust continued as the Board of Directors and senior management of the Corporation.

In connection with the Arrangement, Bonavista assumed all of the obligations of the Trust in respect of the trust unit rights incentive plan (amended to the common share rights incentive plan) and the restricted trust unit incentive plan (amended to the restricted common share incentive plan). The Arrangement did not result in the acceleration of vesting of any such awards. Upon vesting, holders of these rights are entitled to receive common shares on the same terms and conditions that existed prior to the Arrangement. No new incentive awards will be granted in the amended plans. The stock option plan and restricted share award incentive plan of Bonavista were established for new stock options and incentive rights under the Corporation. These plans are functionally similar to their predecessor plans. The incentive plans are further outlined in note 9 of the notes to the condensed consolidated interim financial statements of the Corporation.

The Arrangement has been accounted for as a continuity of interests and accordingly, the consolidated financial statements for periods prior to the effective date of the Arrangement reflect the financial position, income and cash flows as if the Corporation had always carried on the business formerly conducted by the Trust. In these and future consolidated financial statements, Bonavista will refer to "common shares", "shareholders", "dividends" and "per share" which were formerly referred to as "trust units", "unitholders", "distributions" and "per unit" under the trust structure. Comparative amounts in these and future consolidated financial statements will reflect the history of the Trust.

The consolidated financial statements of the Corporation as at, and for, the year ended December 31, 2010, which were prepared under Canadian GAAP, are available through our filings on SEDAR at [www.sedar.com](http://www.sedar.com) or can be obtained from Bonavista's website at [www.bonavistaenergy.com](http://www.bonavistaenergy.com).

#### 1. Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. These condensed consolidated interim financial statements are for part of the period covered by the first IFRS annual financial statements and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

An explanation of how the transition to IFRSs has affected the reported consolidated financial position, financial performance and cash flows of the Corporation is provided in note 13. This note includes reconciliations of equity and total comprehensive income for comparative periods reported under Canadian GAAP (previous GAAP) to those reported for those periods.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors of the Corporation on November 3, 2011.

##### a) Basis of measurement:

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for the following:

- i) derivative financial instruments are measured at fair value;
- ii) available-for-sale financial assets are measured at fair value;
- iii) liabilities for cash-settled share-based compensation are measured at fair market value; and
- iv) liabilities for exchangeable shares are measured at fair market value, prior to the conversion from a trust to a corporation.

##### b) Functional and presentation currency:

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

c) Use of estimates and judgements:

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management applying the Corporation's accounting policies and the key sources of estimation uncertainty are expected to be the same as those to be applied in the first annual IFRS consolidated financial statements.

- Note 3 - valuation of financial instruments
- Note 6 - valuation of property, plant and equipment
- Note 8 - valuation of goodwill and exploration and evaluation assets
- Note 9(b) - measurement of share-based compensation
- Note 11 – decommissioning liabilities

Reserve estimates impact a number of the areas referred to above and in particular, the valuation of property, plant and equipment and the calculation of depletion and depreciation.

**2. Significant accounting policies:**

The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements, and have been applied consistently by the Corporation and its subsidiaries.

Certain comparative amounts have been reclassified to conform to the current year's presentation as noted below:

a) Basis of consolidation:

*Acquisitions on or after January 1, 2010*

For acquisitions on or after January 1, 2010, the Corporation measures goodwill at the acquisition date as the fair value of the consideration transferred including the recognized amount of any non-controlling interests in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

The Corporation elects on a transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognized amount of the identifiable net assets, at the acquisition date. Transaction costs, other than those associated with the issue of debt or equity securities, that the Corporation incurs in connection with a business combination are expensed as incurred.

*Acquisitions prior to January 1, 2010*

As part of its transition to IFRS, the Corporation elected to restate only those business combinations that occurred on or after January 1, 2010. In respect of acquisitions prior to January 1, 2010, goodwill represents the amount recognized under the Corporation's previous accounting framework of Canadian GAAP.

i) Subsidiaries:

Subsidiaries are entities controlled by the Corporation. Control exists when the Corporation has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated statements of financial position from the date that control commences until the date that control ceases.

ii) Jointly controlled operations and jointly controlled assets:

Many of the Corporation's oil and natural gas activities involve jointly controlled assets. The consolidated financial statements include the Corporation's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

iii) Transactions eliminated on consolidation:

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

b) Foreign currency:

Transactions in foreign currencies are translated to Canadian dollars at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the period end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognized in profit or loss.

c) Financial instruments:

i) Non-derivative financial instruments:

The Corporation initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Corporation is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of consolidated financial position when, and only when, the Corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Corporation classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

*Financial assets at fair value through profit or loss*

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Corporation manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Corporation's documented risk management or investment strategy. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in the consolidated statement of income.

Financial assets designated at fair value through profit or loss comprise of interest rate swaps and forward exchange contracts.

*Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise of cash and cash equivalents, and trade and other receivables.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

(ii) Non-derivative financial liabilities

The Corporation initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

The Corporation derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

Financial assets and liabilities are offset and the net amount presented in the statement of consolidated financial position when, and only when, the Corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Corporation classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

Bank overdrafts that are repayable on demand and form an integral part of the Corporation's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

iii) Derivative financial instruments:

The Corporation has entered into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices and foreign exchange rates. These instruments are not used for trading or speculative purposes. The Corporation has not designated its financial derivative contracts as effective accounting hedges, and thus not applied hedge accounting, even though the Corporation considers all commodity contracts and foreign exchange contracts to be economic hedges. Derivatives are recognized initially at fair value and are attributable. Transaction costs are recognized in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized immediately in profit or loss.

The Corporation has accounted for its forward physical delivery sales contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items in accordance with its expected purchase, sale or usage requirements as executory contracts. As such, these contracts are not considered to be derivative financial instruments and have not been recorded at fair value on the balance sheet. Settlements on these physical sales contracts are recognized in oil and natural gas revenues.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in the consolidated statement of income.

iv) Shareholders' capital/Exchangeable shares:

Common shares and exchangeable shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

d) Exploration and evaluation assets and Property, plant and equipment:

i) Recognition and measurement:

Pre-licence costs are recognized in the consolidated statement of income as incurred.

Exploration and evaluation expenditures:

Exploration and evaluation ("E&E") costs, including the costs of acquiring licences and directly attributable general and administrative costs, initially are capitalized as either tangible or intangible E&E assets according to the nature of the assets acquired. The costs are accumulated in cost centres by well, field or exploration area pending determination of technical feasibility and commercial viability.

E&E assets are assessed for impairment if: (i) sufficient data exists to determine technical feasibility and commercial viability; and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, E&E assets are allocated to a cash generating unit ("CGU").

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when total proved plus probable reserves are determined to exist. A review of each exploration licence or field is carried out, at least annually, to ascertain whether proved plus probable reserves have been discovered. Upon determination of total proved plus probable reserves, intangible E&E assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to a separate category within tangible assets referred to as oil and natural gas interests.

Development and production costs:

Items of property, plant and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into CGUs for impairment testing. The cost of property, plant and equipment at January 1, 2010, the date of transition to IFRS, was determined by reference to geological locations and product split. When significant parts of an item of property, plant and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on dispositions of property, plant and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized net within "other income" or "other expenses" in the consolidated statement of income.

ii) Subsequent costs:

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved or proved plus probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in the consolidated statement of income as incurred.

iii) Depletion, depreciation and amortization:

The net carrying amount of development or production assets is depleted using the unit-of-production method by reference to the ratio of production in the year to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

Proved and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids, which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a 50% statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proved and probable and a 50% statistical probability that it will be less. The equivalent statistical probabilities for the proven component of proved and probable reserves are 90% and 10%, respectively.

Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production; and
- evidence that the necessary production, transmission and transportation facilities are available or can be made available.

Reserves may only be considered total proved plus probable if producibility is supported by either actual production or conclusive formation test. The area of reservoir considered proved includes (a) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, or both, and (b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geophysical, geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of oil and natural gas controls the lower proved limit of the reservoir.

Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are only included in the proved and probable classification when successful testing by a pilot project, the operation of an installed program in the reservoir, or other reasonable evidence (such as, experience of the same techniques on similar reservoirs or reservoir simulation studies) provides support for the engineering analysis on which the project or program was based.

The estimated useful lives for certain production assets for the current and comparative years are as follows:

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Facilities	15 years
Oil and natural gas properties	Based on CGU Reserve Life

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For other assets, depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Corporation will obtain ownership by the end of the lease term.

The estimated useful lives for other assets for the current and comparative years are as follows:

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Office equipment	5 years
Fixtures and fittings	5 years
Leaseholds	9.5 years

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Depreciation methods, useful lives and residual values are reviewed at each reporting date.

e) Goodwill and Exploration and evaluation assets:

i) Goodwill:

Goodwill arises on the acquisition of businesses, subsidiaries, associates and joint ventures. Goodwill is measured at cost less accumulated impairment losses.

Acquisitions prior to January 1, 2010:

As part of its transition to IFRS, the Corporation elected to restate only those business combinations that occurred on or after January 1, 2010. In respect of acquisitions prior to January 1, 2010, goodwill represents the amount recognized under the Corporation's previous accounting framework, Canadian GAAP.

Acquisitions on or after January 1, 2010:

For acquisitions on or after January 1, 2010, goodwill represents the excess of the cost of the acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative, it is recognized immediately in the consolidated statement of income.

ii) Exploration and evaluation assets:

Other intangible assets that are acquired by the Corporation, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of other intangible assets, other than goodwill, from the date they were available for use.

f) Impairment:

i) Non-derivative financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in the consolidated statement of income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the consolidated statement of income.

ii) Non-financial assets:

The carrying amounts of the Corporation's non-financial assets, other than E&E assets and deferred income tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and other intangible assets that have indefinite lives or that are not yet available for use an impairment test is completed each year. E&E assets are assessed for impairment when they are reclassified to property, plant and equipment, as oil and natural gas interests, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets, the CGU. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved and probable reserves.

The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to the CGUs that are expected to benefit from the synergies of the combination. E&E assets are allocated to related CGUs when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to producing assets (oil and natural gas interests in property, plant and equipment).

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

g) Share-based compensation:

Long-term incentives are granted to officers, directors, employees and certain consultants in accordance with the Corporation's stock option and restricted share award plans.

The fair value of stock options is assessed on the grant date using the Black-Scholes option pricing model. The fair value is subsequently recognized as compensation expense over the vesting period with a corresponding increase in contributed surplus. Upon exercise of the options, consideration paid by the stock option holders and the value in contributed surplus pertaining to the exercised options are recorded as shareholders' capital.

The fair value of restricted share awards is assessed on the grant date factoring in the weighted average trading price of the five days preceding the grant date and forecasted dividends. This fair value is recognized as compensation expense over the vesting period with a corresponding increase in contributed surplus. Upon the forced vest of the restricted share awards into common shares on the predetermined dates, the value in contributed surplus pertaining to the share awards is recorded as shareholders' capital.

Under both incentive plans, forfeiture rates are assigned in the determination of fair value. Upon vest, the difference between estimated and actual forfeitures is adjusted through share-based compensation.

h) Lease payments:

Payments made under operating leases are recognized in profit and loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

i) Provisions:

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

j) Decommissioning obligations:

The Corporation's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the balance sheet date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

k) Revenues:

Revenues from the sale of oil and natural gas are recorded when the significant risks and rewards of ownership of the product is transferred to the buyer, which is usually when legal title passes to the external party. This is generally at the time product enters the pipeline. Revenues are measured net of discounts, customs, duties and royalties. With respect to the latter, the entity is acting as a collection agent on behalf of others.

Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

l) Finance income and costs:

Finance costs comprise of interest expense on borrowings, unwinding of the discount on provisions and impairment losses recognized on financial assets, fair value losses on financial assets at fair value through profit and loss.

Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Foreign currency gains and losses, reported under finance income or expenses, are reported on a net basis.

m) Income taxes:

Income tax expense comprises current and deferred income taxes. Current and deferred income taxes are recognized in the consolidated statement of income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred income taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income taxes are not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred income taxes are measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred income tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

n) Net income per share:

Basic net income per share is calculated by dividing the profit or loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted net income per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees.

### 3. Financial risk management:

Bonavista has exposure to credit and market risks from its use of financial instruments. This note provides information about the Corporation's exposure to each of these risks, the Corporation's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

a) Credit risk:

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligation and arises, primarily from joint venture partners, marketers and financial intermediaries.

The Corporation's accounts receivable are with customers and joint venture partners in the oil and natural gas business and are subject to normal credit risks. Concentration of credit risk is mitigated by marketing production to numerous purchasers under normal industry sale and payment terms. The Corporation routinely assesses the financial strength of its customers.

The Corporation may be exposed to certain losses in the events of non-performance by counterparties to financial instrument contracts. The Corporation mitigates this risk by entering into transactions with highly rated financial institutions.

The carrying amount of accounts receivable represents the maximum credit exposure. As at September 30, 2011 Bonavista's receivables consisted of \$94.9 million of receivables from oil and natural gas marketers which has substantially been collected subsequent to September 30, 2011 and \$34.1 million from joint venture partners of which \$4.4 million has been subsequently collected. As at September 30, 2011 Bonavista has \$13.1 million in accounts receivable that is considered to be past due. Although these amounts have been outstanding for greater than 90 days, they are still deemed to be collectible. As the operator of properties, Bonavista has the ability to withhold production to joint venture partners, who are in default of amounts owing. The Corporation does not have an allowance for doubtful accounts as at September 30, 2011 and did not provide for any doubtful accounts during the three months ended September 30, 2011.

b) Liquidity risk:

Liquidity risk is the risk that Bonavista will encounter difficulty in meeting obligations associated with the financial liabilities. The Corporation's financial liabilities consist of accounts payable and accrued liabilities, financial instruments contracts, bank debt and senior unsecured notes. Accounts payable consists of invoices payable to trade suppliers for office, field operating activities, capital expenditures, and dividends payable. Bonavista processes invoices within a normal payment period.

Accounts payable and accrued liabilities have contractual maturities of less than one year. Financial instrument contracts have contractual maturities of less than two years on all commodity contracts and range from seven to twelve years on foreign exchange hedge contracts. Bonavista's four year revolving credit facility, as outlined in note 10, may at the request of the Corporation with the consent of the lenders, be extended on an annual basis beyond the existing term. The Corporation also has a series of senior unsecured notes outstanding, as outlined in note 10, which range in maturities from June 4, 2016 to November 2, 2022. The Corporation also maintains and monitors a certain level of cash flow, which is used to partially finance all operating, investing and capital expenditures.

c) Commodity price risk:

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted not only by global economic events that dictate the levels of supply and demand but also by the relationship between the Canadian and United States dollar. Bonavista has attempted to mitigate a portion of the commodity price risk through the use of various financial instrument contracts and physical delivery sales contracts. The Corporation's policy is to enter into commodity price contracts when considered appropriate to a maximum of 60% of net after royalty, forecasted production volumes, or in the case of electricity, 60% of Bonavista's net consumption.

i) Financial instrument contracts:

As at September 30, 2011, Bonavista entered into the following costless collars to sell natural gas and crude oil as follows:

Volume	Average Price	Term
15,000 gjs/d	CDN\$4.03 - CDN\$5.13 - AECO	October 1, 2011 - October 31, 2011
5,000 gjs/d	CDN\$4.50 - CDN\$7.24 - AECO	October 1, 2011 - October 31, 2011
10,000 gjs/d	CDN\$5.25 - CDN\$7.20 - AECO	October 1, 2011 - December 31, 2011
20,000 gjs/d	CDN\$3.71 - CDN\$4.48 - AECO	April 1, 2012 - October 31, 2012
9,500 bbls/d	CDN\$79.58 - CDN\$97.09 - WTI	October 1, 2011 - December 31, 2011
5,500 bbls/d	CDN\$84.09 - CDN\$109.20 - WTI	January 1, 2012 - December 31, 2012

Subsequent to September 30, 2011, Bonavista entered into the following costless collar to sell crude oil as follows:

Volume	Average Price	Term
1,000 bbls/d	CDN\$77.50 - CDN\$100.00 - WTI	January 1, 2012 - December 31, 2012
500 bbls/d	CDN\$80.00 - CDN\$101.25 - WTI	January 1, 2012 - June 30, 2012
500 bbls/d	CDN\$80.00 - CDN\$105.00 - WTI	July 1, 2012 - December 31, 2012

As at September 30, 2011, Bonavista entered into the following option contracts to manage its overall commodity exposure:

Volume	Price	Contract	Term
33,000 gjs/d	CDN\$4.01	Swap - AECO	October 1, 2011 - October 31, 2011
10,000 gjs/d	CDN\$6.45	Sold Call - AECO	October 1, 2011 - October 31, 2011
5,000 mmbtu/d	(USD\$0.45)	Basis Swap - Nymex	January 1, 2012 - December 31, 2012
1,000 bbls/d	CDN\$100.00	Sold Call - WTI	October 1, 2011 - December 31, 2011
500 bbls/d	USD\$102.50	Sold Call - WTI	October 1, 2011 - December 31, 2011
500 bbls/d	USD\$105.00	Sold Call - WTI	October 1, 2011 - December 31, 2011
1,000 bbls/d	CDN\$105.00	Sold Call - WTI	January 1, 2012 - December 31, 2012

Subsequent to September 30, 2011, Bonavista entered into the following swap option contract:

Volume	Price	Contract	Term
5,000 mmbtu/d	(USD\$0.45)	Basis Swap - Nymex	January 1, 2012 - December 31, 2012

Financial instrument contracts are recorded on the consolidated statement of financial position at fair value at each reporting period with the change in fair value being recognized as an unrealized gain or loss on the consolidated statements of income and comprehensive income. As at September 30, 2011, the fair market value recorded on the consolidated statement of financial position for these financial instrument contracts was a net asset of \$18.4 million, compared to a net asset of \$15.2 million as at September 30, 2010.

Bonavista mitigates its risk associated with fluctuations in commodity prices by utilizing financial instrument contracts. A \$0.10 change in the price per thousand cubic feet of natural gas - AECO would have an impact of approximately \$400,000 on net income for those financial instrument contracts that were in place as at September 30, 2011. A \$1.00 increase in the price per barrel of oil – WTI would have a negative impact of approximately \$1.3 million on net income for those financial instrument contracts that were in place as at September 30, 2011. A \$1.00 decrease in the price per barrel of oil – WTI would have a positive impact of \$1.2 million on net income for those financial instrument contracts that were in place as at September 30, 2011.

ii) Physical purchase and sale contracts:

As at September 30, 2011, Bonavista entered into the following physical contracts to sell natural gas as follows:

Volume	Average Price	Term
10,000 gjs/d	CDN\$5.13 - CDN\$6.99 - AECO	October 1, 2011 - December 31, 2011
19,500 gjs/d	CDN\$3.95 - AECO	October 1, 2011 - October 31, 2011
5,000 mmbtu/d	(USD\$0.45) - Basis Swap Nymex	January 1, 2012 - December 31, 2012

As at September 30, 2011, Bonavista entered into the following contracts to purchase electricity as follows:

Volume	Average Price	Term
6 mw/h	CDN\$50.37 - AESO	October 1, 2011 - December 31, 2011
1 mw/h	CDN\$51.00 - AESO	October 1, 2011 - December 31, 2012

Physical purchase and sale contracts are being accounted for as they are settled.

d) Foreign exchange risk:

Commodity prices are largely denominated in US dollars and as a result the prices that Canadian producers receive is determined by the relationship between the US and Canadian dollar. In addition, Bonavista also has US denominated debt and interest obligations of which future cash payments are directly impacted by the exchange rate in effect on the due date.

On July 21, 2011, Bonavista entered into an agreement with three financial intermediaries to purchase the following US dollars that coincide with Bonavista's note repayment commitments:

Forward date	Contract	Notional US\$	CDN\$/US\$
November 2, 2017	USD purchased forward	\$30,000,000	0.995
November 2, 2020	USD purchased forward	\$53,300,000	0.995
November 2, 2022	USD purchased forward	\$16,500,000	0.995

As at September 30, 2011, the fair market value recorded on the consolidated statement of financial position for these financial instrument contracts was a net asset of \$6.7 million (2010 – nil). A \$0.01 change in CDN\$/US\$ exchange rate would have an impact of approximately \$600,000 on net income for those foreign exchange forward contracts in place as at September 30, 2011.

e) Interest rate risk:

Bonavista is exposed to interest rate risk on its outstanding bank debt, as it has a floating interest rate and consequently changes to interest rates would impact the Corporation's future cash flows. If interest rates applicable to the variable rate debt increases by 1% it is estimated that Bonavista's net income for the period ended September 30, 2011 would decrease by \$1.2 million.

#### 4. Finance costs and income:

##### a) Finance costs:

	Three Months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Finance costs:				
Interest on bank debt	\$ 7,220	\$ 6,736	\$ 20,909	\$ 15,196
Interest on notes payable	4,592	635	12,766	818
Interest on convertible debentures	-	-	-	1,302
Accretion of decommissioning liabilities	3,066	3,056	9,079	8,929
Foreign exchange loss	26,110	-	15,505	-
Net change in fair value of financial derivatives	-	-	-	(289)
Net change in fair market value of exchangeable shares	-	33,810	-	64,322
<b>Finance costs</b>	<b>\$ 40,988</b>	<b>\$ 44,237</b>	<b>\$ 58,259</b>	<b>\$ 90,278</b>

##### b) Finance income:

	Three Months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Finance income:				
Gain on marketable securities	\$ -	\$ -	\$ -	\$ (1,871)
Foreign exchange gain	-	(1,540)	-	(1,135)
Unrealized gain on financial instrument contracts	(6,732)	-	(6,732)	-
<b>Finance income</b>	<b>\$ (6,732)</b>	<b>\$ (1,540)</b>	<b>\$ (6,732)</b>	<b>\$ (3,006)</b>

The Corporation's effective interest rate for the period ending September 30, 2011 was approximately 4.4% (2010 – 3.0%).

#### 5. Supplemented cash flow information:

Changes in non-cash working capital is comprised of:

	Three Months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Source/(use) of cash				
Accounts receivable	\$ (945)	\$ (2,526)	\$ (8,467)	\$ 647
Prepaid expenses	(2,013)	702	1,960	1,718
Other assets	(725)	584	451	(2,559)
Accounts payable and accrued liabilities, net of interest accrual	4,945	13,464	8,572	16,377
	<b>\$ 1,262</b>	<b>\$ 12,224</b>	<b>\$ 2,516</b>	<b>\$ 16,183</b>
Related to:				
Operating activities	\$ (9,372)	\$ 14,984	\$ 1,251	\$ 7,513
Investing activities	10,634	(2,760)	1,265	8,670
	<b>\$ 1,262</b>	<b>\$ 12,224</b>	<b>\$ 2,516</b>	<b>\$ 16,183</b>

**6. Property, plant and equipment:**

	<b>Oil and natural gas properties</b>	<b>Facilities</b>	<b>Other assets</b>	<b>Total</b>
<b>Cost:</b>				
Balance as at January 1, 2010	\$ 2,360,798	\$ 362,240	\$ 3,288	\$ 2,726,326
Additions	268,831	10,287	1,419	280,537
Acquisitions	220,885	59,099	-	279,984
Transfer from exploration and evaluation	37,085	-	-	37,085
Changes in decommissioning liabilities	28,490	-	-	28,490
Disposals	(35,192)	(5,695)	-	(40,887)
Balance as at December 31, 2010	2,880,897	425,931	4,707	3,311,535
Additions	319,271	24,263	10,149	353,683
Acquisitions	113,723	28,254	-	141,977
Transfer from exploration and evaluation	17,792	-	-	17,792
Changes in decommissioning liabilities	10,277	-	-	10,277
Disposals	(25,148)	(6,105)	-	(31,253)
Balance as at September 30, 2011	\$ 3,316,812	\$ 472,343	\$ 14,856	\$ 3,804,011
<b>Depletion, depreciation and amortization:</b>				
Balance at January 1, 2010	\$ -	\$ -	\$ -	\$ -
Depletion, depreciation and amortization	(249,203)	(21,202)	(941)	(271,346)
Disposals	2,777	257	-	3,034
Balance as at December 31, 2010	(246,426)	(20,945)	(941)	(268,312)
Depletion, depreciation and amortization	(194,210)	(16,604)	(1,694)	(212,508)
Disposals	1,349	335	-	1,684
Balance as at September 30, 2011	\$ (439,287)	\$ (37,214)	\$ (2,635)	\$ (479,136)
Net book value as at September 30, 2011	\$ 2,877,525	\$ 435,129	\$ 12,221	\$ 3,324,875
Net book value as at December 31, 2010	\$ 2,634,471	\$ 404,986	\$ 3,766	\$ 3,043,223
Net book value as at January 1, 2010	\$ 2,360,798	\$ 362,240	\$ 3,288	\$ 2,726,326

a) Depletion, depreciation and amortization:

The depletion, depreciation and amortization and impairment of oil and natural gas properties and equipment, and any eventual reversal thereof, are recognized in depletion, depreciation and amortization in the consolidated interim statements of income and comprehensive income.

b) Contingencies:

Although the Corporation believes that it has title to its oil and natural gas properties, it cannot control or completely protect itself against the risk of title disputes or challenges.

## 7. Acquisition:

On August 10, 2011, Bonavista acquired all of the issued and outstanding shares of a private oil and natural gas company in consideration for cash and shares. In connection with the acquisition, Bonavista also received approximately \$54.3 million of income tax pools. Details of the acquisition are as follows:

	<b>Amount</b>
(thousands)	
Net assets acquired:	
Oil and natural gas properties	\$ 107,935
Working capital	9,063
Decommissioning liability	(2,125)
Deferred income tax	(10,310)
<b>Net assets acquired</b>	<b>104,563</b>
(thousands)	
Purchase consideration:	
Cash	103,635
Common shares	928
<b>Total purchase consideration</b>	<b>\$ 104,563</b>

## 8. Goodwill and exploration and evaluation assets :

	<b>Goodwill</b>	<b>Exploration and evaluation assets</b>
Cost:		
Balance as at January 1, 2010	\$ 41,321	\$ 179,747
Additions	-	71,444
Acquisitions	-	6,092
Dispositions	-	(608)
Transfers to property, plant and equipment	-	(37,085)
Impairment	(10,000)	-
<b>Balance as at December 31, 2010</b>	<b>\$ 31,321</b>	<b>\$ 219,590</b>
Additions	-	30,995
Acquisitions	-	4,494
Dispositions	-	(1,045)
Transfers to property, plant and equipment	-	(17,792)
<b>Balance as at September 30, 2011</b>	<b>\$ 31,321</b>	<b>\$ 236,242</b>

Exploration and evaluation ("E&E") assets consist of the Corporation's exploration projects which are pending the determination of proved or probable reserves. Additions represent the Corporation's share of costs incurred on E&E assets during the period.

## 9. Share capital:

At September 30, 2011, the Corporation was authorized to issue an unlimited number of common shares and exchangeable shares.

The holders of common shares are entitled to receive dividends as declared by the Corporation and are entitled to one vote per share.

The exchangeable shares of Bonavista are exchangeable into common shares of the Corporation based on the exchange ratio, which is adjusted monthly, to reflect dividends paid on common shares. As a result, dividends are not paid on exchangeable shares. The holders of exchangeable shares are entitled to one vote times the exchange ratio for each exchangeable share.

a) Issued and outstanding:

(i) Common shares:

(thousands)	
Balance as at December 31, 2010	133,975
Issued for cash	7,000
Issued on business acquisition	32
Issued on conversion of exchangeable shares	2,236
Issued upon exercise of common shares incentive rights	562
Conversion of restricted share awards	75
<b>Balance as at September 30, 2011</b>	<b>143,880</b>

(ii) Exchangeable shares:

(thousands)	
Balance as at December 31, 2010	22,593
Exchanged for common shares	(2,204)
<b>Balance as at September 30, 2011</b>	<b>20,389</b>
Exchange ratio as at September 30, 2011	1.03410
<b>Common shares issuable on exchange as at September 30, 2011</b>	<b>21,084</b>

The holders of the Corporation's exchangeable shares shall be entitled to notice of, to attend at, and to that number of votes equal to the number of exchangeable shares held multiplied by the exchange ratio in effect at the meeting record date at any meeting of the shareholders of Bonavista. In accordance with the provisions of the Corporation's exchangeable shares, Bonavista may require, at any time, the exchange of that number of the Corporation's exchangeable shares as determined by the Board of Directors on the basis of the exchange ratio in effect on the date set by Bonavista (the "Compulsory Exchange Date"). On and after the applicable Compulsory Exchange Date, the holders of the Corporation's exchangeable shares called for exchange shall cease to be holders of such Corporation's exchangeable shares and shall not be entitled to exercise any of the rights of holders in respect thereof, other than; (i) the right to receive their proportionate part of the common shares; and (ii) the right to receive any declared and unpaid dividends on such common shares.

b) Share-based compensation:

Bonavista has option and restricted share award programs that entitle officers, directors, employees and certain consultants to purchase and receive shares in the Corporation. The number of common shares awarded under all long-term incentive plans shall be limited to 8% of the aggregate number of issued and outstanding equivalent shares of the Corporation.

(i) Stock option and common share incentive rights plans:

Upon conversion to a corporation, the stock option plan of the Corporation was established and the common share rights incentive plan (formerly the trust unit rights incentive plan of the Trust) was amended. The amended plan provided that all rights to acquire trust units became rights to acquire common shares. The amended plan will remain in place until such time as all rights granted have been exercised or expired. The exercise price per common share is calculated by deducting from the grant price the aggregate of all dividends on a per common share basis made by the Corporation after the grant date. All new rights granted after December 31, 2010 are granted under the stock option plan.

The incentive rights granted under the stock option plan vest over a three year period and expire three years after each vesting date, whereas rights granted under the amended common share rights incentive plan vest over a four year period and expire two years after each vesting date.

The following tables summarize the stock option and common share incentive rights outstanding and exercisable under the plans at September 30, 2011:

	Number of Stock Options/Common Share Incentive Rights	Weighted Average Exercise Price
Balance as at December 31, 2010	3,956,728	\$ 20.28
Granted	2,306,076	27.64
Exercised	(562,044)	(17.89)
Expired and forfeited	(361,419)	(26.21)
Reduction in exercise price	-	(0.83)
<b>Balance as at September 30, 2011</b>	<b>5,339,341</b>	<b>\$ 22.54</b>
<b>Exercisable as at September 30, 2011</b>	<b>1,295,871</b>	<b>\$ 19.15</b>

As at September 30, 2011 there are 2.2 million stock options outstanding with nil exercisable and 3.1 million common share incentive rights outstanding with 1.3 million exercisable.

The range of exercise prices of the outstanding stock option and common share incentive rights plans is as follows:

Range of exercise prices	Stock Options/Common Share Incentive Rights Outstanding			Stock Options/Common Share Incentive Rights Exercisable	
	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$ 11.23 - 20.62	1,744,619	2.3	\$ 14.97	769,777	\$ 14.65
20.63 - 27.01	1,848,617	3.9	23.61	240,728	21.45
27.02 - 35.99	1,746,105	3.7	28.96	285,366	29.34
\$ 11.23 - 35.99	5,339,341	3.3	\$ 22.54	1,295,871	\$ 19.15

(ii) Restricted share award incentive plan and restricted common share incentive plan:

Upon the Trust's conversion to a corporation, the Restricted Share Award Incentive Plan was established and the restricted common share incentive plan (formerly the restricted trust unit rights incentive plan of Bonavista Energy Trust) was amended. The amended plan provided that all rights to acquire Trust Units became rights to acquire common shares. The amended plan will remain in place until such time as all rights granted have vested or been cancelled. All new rights granted after December 31, 2010 are granted under the Restricted Share Award Plan.

Vesting arrangements are within the discretion of Bonavista's Board of Directors, but all awards will vest within three years from the date of grant. On the vesting date, the holder will receive equivalent common shares for each share award, including dividends made on the common shares from the date of the grant to and including the vesting date, net of statutory withholding tax.

The fair value of restricted share awards is assessed on the grant date factoring in the weighted average trading price of the five days preceding the grant date and forecasted dividends. This fair value is recognized as share-based compensation expense over the vesting period with a corresponding increase to contributed surplus. Upon the forced vest of these awards, the fair value is moved from contributed surplus into shareholders' capital.

The following table summarizes the restricted share award incentive and restricted common share incentive plans outstanding at September 30, 2011:

Balance as at December 31, 2010	248,552
Granted	386,586
Exercised	(110,091)
Forfeited	(34,250)
<b>Balance as at September 30, 2011</b>	<b>490,797</b>

As at September 30, 2011, there were 125,459 restricted common share rights outstanding and 365,338 restricted share awards outstanding.

As at September 30, 2011, the balance of contributed surplus attributable to the share-based compensation awards was \$31.5 million. Share-based compensation expense recognized in the three and nine months ended September 30, 2011 was \$3.8 million and \$10.9 million respectively.

c) Per share amounts:

The following table summarizes the weighted average common shares and exchangeable shares used in calculating net income per equivalent share:

	Three Months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
(thousands)				
Common shares	139,641	133,530	136,616	130,162
Exchangeable shares converted at the exchange ratio	21,680	-	22,212	-
Basic equivalent shares	161,321	133,530	158,828	130,162
Convertible debentures	-	-	-	877
Stock option and common share incentive rights	704	224	762	246
Restricted share award incentive plan and restricted common share incentive rights	432	256	350	202
<b>Diluted equivalent shares</b>	<b>162,457</b>	<b>134,010</b>	<b>159,940</b>	<b>131,487</b>

For the three months ended September 30, 2011, the diluted equivalent shares exclude nil exchangeable shares (2010 - 22,074,000) as they are anti-dilutive. For the nine month period ending September 30, 2011 the diluted equivalent shares exclude nil exchangeable shares (2010 - 22,262,000) as they are anti-dilutive.

10. Long-term debt:

	September 30, 2011	December 31, 2010
(thousands)		
Bank credit facility	\$ 596,977	\$ 555,348
Senior unsecured notes	411,644	396,095
<b>Balance, end of period</b>	<b>\$1,008,621</b>	<b>\$ 951,443</b>

a) Bank credit facility:

On September 10, 2010, Bonavista combined and renewed its bank credit facilities into a single facility of \$1.4 billion provided by a syndicate of 12 domestic and international banks with a maturity date of September 10, 2013. On March 3, 2011, Bonavista elected to reduce the committed amount of its bank credit facility by \$400 million from \$1.4 billion to \$1.0 billion.

On October 25, 2011, Bonavista renewed its bank credit facility of \$1.0 billion provided by a syndicate of 11 domestic and international banks with a maturity date of September 10, 2015.

This facility is an unsecured, covenant-based, extendible revolving facility and includes a \$50 million working capital facility. This facility provides that advances may be made by way of prime rate loans, bankers' acceptances and/or US dollar LIBOR advances. These advances bear interest at the banks' prime rate and/or at money market rates plus a stamping fee. This facility is a four year revolving credit and may, at the request of the Corporation with the consent of the lenders, be extended on an annual basis beyond the existing term. There is an accordion feature providing that at any time during the term, on participation of any existing or additional lenders, the Corporation can increase the facility by \$250 million.

Under the terms of the bank credit facility, Bonavista has provided the covenant that its: (i) consolidated senior debt borrowing will not exceed three times net income before unrealized gains and losses on financial instrument contracts and marketable securities, interest, taxes and depreciation, depletion and amortization; (ii) consolidated total debt will not exceed three and one half times consolidated net income before unrealized gains and losses on financial instrument contracts and marketable securities, interest, taxes and depreciation, depletion and amortization; and (iii) consolidated senior debt borrowing will not exceed one-half of consolidated total debt plus consolidated shareholders' equity of the Corporation, in all cases calculated based on a rolling prior four quarters.

b) Senior unsecured notes issued under a master shelf agreement:

In the third quarter of 2010, the Corporation entered into an uncommitted master shelf agreement that allows for an aggregate draw of up to US\$125 million in notes at a rate equal to the related US treasury rate corresponding to the term of the notes plus an appropriate credit risk adjustment at the time of issuance. On June 4, 2010 the Corporation drew down US\$50 million on the master shelf agreement with a coupon rate of 4.86% with US\$25 million maturing on June 4, 2016 and the remaining US\$25 million maturing on June 4, 2017. Under the terms of the master shelf agreement, Bonavista has provided similar significant covenants that exist under the bank credit facility.

c) Senior unsecured notes not subject to the master shelf agreement:

On November 2, 2010 and October 25, 2011, Bonavista issued the following senior unsecured notes by way of a private placement. The significant covenants of the senior unsecured notes are the same as those under the bank credit facility.

The terms and coupon rates of the notes are summarized below:

Issued Date	Principal	Coupon Rate	Maturity Date
November 2, 2010	CDN \$50.0 million	3.79%	November 2, 2015
November 2, 2010	USD \$90.0 million	3.66%	November 2, 2017
November 2, 2010	USD \$160.0 million	4.37%	November 2, 2020
November 2, 2010	USD \$50.0 million	4.47%	November 2, 2022
October 25, 2011	USD \$150.0 million	4.25%	October 25, 2021

**11. Decommissioning liability:**

Bonavista's decommissioning liability results from net ownership interests in oil and natural gas assets including well sites, gathering systems and processing facilities. The Corporation estimates the total undiscounted amount of expenditures required to settle its decommissioning liability is approximately \$779.7 million (2010 - \$790.0 million) which will be incurred over the next 30 years. A risk-free rate of approximately 4.1% (2010 - 4.1%) was used to discount this amount. A reconciliation of the decommissioning liability is provided below:

	Three Months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
(thousands)				
Balance, beginning of period	\$ 319,196	\$ 317,348	\$ 319,096	\$ 294,635
Accretion expense	3,066	3,056	9,079	8,929
Liabilities incurred	7,096	3,858	10,850	9,198
Liabilities acquired	2,365	1,472	2,876	17,535
Liabilities disposed	(385)	-	(4,171)	-
Liabilities settled	(5,924)	(4,256)	(15,163)	(8,819)
Change in estimate	-	-	2,847	-
<b>Balance, end of period</b>	<b>\$ 325,414</b>	<b>\$ 321,478</b>	<b>\$ 325,414</b>	<b>\$ 321,478</b>

**12. Deferred income taxes:**

The provision for income tax differs from the result which would have been obtained by applying the combined Federal and Provincial income tax rates to net income before taxes. The difference results from the following items:

	Three Months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
(thousands)				
Net income before tax	\$ 46,317	\$ 22,881	\$ 192,208	\$ 162,566
Current statutory income tax rate	26.6%	28.1%	26.6%	28.1%
Income tax expense (benefit) at current statutory rate	12,320	6,431	51,127	45,681
Loss on exchangeable shares	-	9,522	-	18,115
Distributions to unitholders	-	(18,054)	-	(52,961)
Effect of tax rate changes and rate variance	(908)	(780)	(3,623)	94
Other	3,739	1,067	4,199	2,565
<b>Deferred income taxes</b>	<b>\$ 15,151</b>	<b>\$ (1,814)</b>	<b>\$ 51,703</b>	<b>\$ 13,494</b>

### 13. First time adoption of International Financial Reporting Standards:

The condensed consolidated interim financial statements as at September 30, 2010 represent those of the Trust.

The accounting policies in Note 2 have been applied in preparing the condensed interim consolidated financial statements for the three and nine months ended September 30, 2011, the comparative information for the three and nine months ended September 30, 2010, the balance sheet for the year ended December 31, 2010.

In preparing the condensed consolidated interim financial statements for the three and nine months ended September 30, 2011, the comparative information for the three and nine months ended September 30, 2010 and the financial statements for the year ended December 31, 2010, have been adjusted from the amounts reported previously in the financial statements prepared in accordance with Canadian GAAP.

The comparative condensed consolidated interim financial statements for the year ended December 31, 2010 includes an increase in depletion, depreciation and amortization in the amount of \$22.1 million (three months ended March 31, 2010 - \$4.3 million) from that previously disclosed in the condensed consolidated interim financial statements for the three months ended March 31, 2011.

An explanation of how the transition from Canadian GAAP to IFRS has affected the Corporation's financial position and financial performance is set out in the following tables. The transition from Canadian GAAP to IFRS has not affected the Corporation's cashflows.

#### **Key First-Time Adoption Exemptions Applied**

IFRS 1 First-Time Adoption of International Financial Reporting Standards allows first-time adopters certain exemptions from retrospective application of certain IFRS.

The Corporation has applied the following exemptions:

- Certain oil and natural gas assets in property, plant and equipment on the balance sheet were recognized and measured on a full cost basis in accordance with Canadian GAAP. The Corporation has elected to measure its properties at the amount determined under Canadian GAAP as at January 1, 2010. Costs included in the full cost pool on January 1, 2010 were allocated on a pro-rata basis to the underlying assets on the basis of total proved plus probable reserve values as at January 1, 2010. Decommissioning liabilities were measured using a risk-free rate, with a corresponding adjustment recorded to opening retained earnings.
- IFRS 3 Business Combinations has not been applied to acquisitions of subsidiaries or interests in joint ventures that occurred before January 1, 2010.

## Reconciliation of equity from Canadian GAAP to IFRS as at September 30, 2010:

(thousands) (unaudited)	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>Assets:</b>				
Current assets:				
Accounts receivable		\$ 104,265	\$ -	\$ 104,265
Prepaid expenses		15,194	-	15,194
Financial instrument contracts		7,355	-	7,355
Other assets		9,098	-	9,098
		135,912	-	135,912
Financial instrument contracts		10,774	-	10,774
Property, plant and equipment	(a)	3,180,072	(147,679)	3,032,393
Exploration and evaluation assets	(b)	-	234,931	234,931
Goodwill		41,321	-	41,321
		\$ 3,368,079	\$ 87,252	\$ 3,455,331
<b>Liabilities and Shareholders' Equity:</b>				
Current liabilities:				
Accounts payable and accrued liabilities		\$ 173,282	\$ -	\$ 173,282
Dividends payable		21,379	-	21,379
Financial instrument contracts		-	-	-
Exchangeable shares	(f)	-	527,026	527,026
Share-based compensation	(g)	-	13,858	13,858
Deferred income taxes	(h)	2,002	(2,002)	-
		196,663	538,882	735,545
Financial instrument contracts		2,884	-	2,884
Long-term debt		974,081	-	974,081
Decommissioning liabilities	(e)	171,143	150,335	321,478
Deferred income taxes	(h)	131,230	(3,599)	127,631
Share-based compensation	(g)	-	5,394	5,394
Shareholders' equity:				
Shareholders' capital	(j)	1,726,732	14,503	1,741,235
Exchangeable shares	(f)	57,309	(57,309)	-
Contributed surplus	(k)	14,626	(14,503)	123
Retained earnings (Deficit)	(l)	93,411	(546,451)	(453,040)
		1,892,078	(603,760)	1,288,318
		\$ 3,368,079	\$ 87,252	\$ 3,455,331

Reconciliation of total comprehensive income for the three months ended September 30, 2010:

(thousands) (unaudited)	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>Revenue:</b>				
Production		\$ 222,656	\$ -	\$ 222,656
Royalties		(33,112)	-	(33,112)
		189,544	-	189,544
Realized gain on financial instrument contracts		5,700	-	5,700
Unrealized loss on financial instrument contracts		(2,516)	-	(2,516)
		3,184	-	3,184
		192,728	-	192,728
<b>Expenses:</b>				
Operating		48,523	-	48,523
Transportation		10,526	-	10,526
General and administrative expenses		5,262	-	5,262
Share-based compensation	(g)	3,062	1,267	4,329
Gain on disposition of property, plant and equipment	(a)	-	(12,465)	(12,465)
Depletion, depreciation and amortization	(c)	88,652	(17,677)	70,975
		156,025	(28,875)	127,150
Income from operating activities		36,703	28,875	65,578
Finance costs	(e)(f)(i)	10,383	33,854	44,237
Finance income		(1,540)	-	(1,540)
Net finance costs		8,843	33,854	42,697
Income before income taxes		27,860	(4,979)	22,881
Deferred income taxes	(h)	(8,754)	6,940	(1,814)
<b>Net income and comprehensive income</b>		<b>\$ 36,614</b>	<b>\$ (11,919)</b>	<b>\$ 24,695</b>
<b>Net income per share – basic</b>		<b>\$ 0.24</b>	<b>\$ (0.06)</b>	<b>\$ 0.18</b>
<b>Net income per share – diluted</b>		<b>\$ 0.23</b>	<b>\$ (0.05)</b>	<b>\$ 0.18</b>

## Reconciliation of total comprehensive income for the nine months ended September 30, 2010:

(thousands) (unaudited)	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>Revenue:</b>				
Production		\$ 704,020	\$ -	\$ 704,020
Royalties		(108,436)	-	(108,436)
		595,584	-	595,584
Realized gain on financial instrument contracts		11,153	-	11,153
Unrealized gain on financial instrument contracts		24,788	-	24,788
		35,941	-	35,941
		631,525	-	631,525
<b>Expenses:</b>				
Operating		145,261	-	145,261
Transportation		28,975	-	28,975
General and administrative expenses		15,456	-	15,456
Share-based compensation	(g)	8,539	1,482	10,021
Gain on disposition of property, plant and equipment	(a)	-	(18,813)	(18,813)
Depletion, depreciation and amortization	(c)	253,788	(53,001)	200,787
		452,019	(70,332)	381,687
Income from operating activities		179,506	70,332	249,838
Finance costs	(e)(f)(i)	26,569	63,709	90,278
Finance income		(3,006)	-	(3,006)
Net finance costs		23,563	63,709	87,272
Income before income taxes		155,943	6,623	162,566
Deferred income taxes	(h)	(5,854)	19,348	13,494
<b>Net income and comprehensive income</b>		<b>\$ 161,797</b>	<b>\$ (12,725)</b>	<b>\$ 149,072</b>
<b>Net income per share – basic</b>		<b>\$ 1.06</b>	<b>\$ 0.09</b>	<b>\$ 1.15</b>
<b>Net income per share – diluted</b>		<b>\$ 1.06</b>	<b>\$ 0.08</b>	<b>\$ 1.14</b>

**Notes to reconciliation:**

- a) Property, Plant and Equipment (“PP&E”) - Bonavista’s PP&E assets were allocated to its CGUs unlike under Canadian GAAP where all oil and natural gas assets are accumulated into one cost centre. The deemed cost of Bonavista’s oil and natural gas assets were allocated to its defined CGUs based on Bonavista’s total proved plus probable reserve values as at January 1, 2010, in accordance with IFRS 1. These CGUs were aligned within the major geographic regions in which Bonavista operates and could change in the future as a result of significant acquisition and disposition activity. The following tables highlight the changes in property, plant and equipment and the impact on the consolidated statement of income and comprehensive income as a result of its transition from Canadian GAAP to IFRS.

<b>Consolidated statement of financial position</b>	<b>As at September 30, 2010</b>
(thousands)	
Decrease due to transfer of exploration and evaluation assets	\$ (234,931)
Adjustment required for recorded gains on disposition of property, plant and equipment	18,813
Increase due to adjustment in depletion, depreciation and amortization	53,001
Change in decommissioning liabilities	15,864
Capitalization of share-based compensation	(426)
<b>Net change in property, plant and equipment</b>	<b>\$ (147,679)</b>

<b>Consolidated statement of income and comprehensive income</b>	<b>For the three months ended September 30, 2010</b>	<b>For the nine months ended September 30, 2010</b>
(thousands)		
Gain on disposition of property, plant and equipment	\$ (12,465)	\$ (18,813)
Increase in retained earnings (deficit)	\$ 12,465	\$ 18,813

- b) Exploration and Evaluation (“E&E”) expenditures - Upon transition to IFRS, Bonavista reclassified all E&E expenditures that were included in the PP&E balance on the consolidated statement of financial position. This consisted of the carrying amount for Bonavista’s undeveloped land that related directly to exploration properties. E&E assets will not be depleted and will be assessed for impairment when indicators of impairment exist. Management identified and reclassified the following amounts from PP&E to E&E in the consolidated statement of financial position prepared under IFRS as at September 30, 2010.

<b>Consolidated statement of financial position</b>	<b>As at September 30, 2010</b>
(thousands)	
Increase in exploration and evaluation assets	\$ 234,931

- c) Depletion expense - Bonavista has chosen to calculate its depletion using a reserve base of total proved plus probable reserves, as compared to using only proved reserves under Canadian GAAP. As a result, the depletion expense decreased as compared to its current calculation under Canadian GAAP.

<b>Consolidated statement of income and comprehensive income</b>	<b>For the three months ended September 30, 2010</b>	<b>For the nine months ended September 30, 2010</b>
(thousands)		
Decrease in depletion, depreciation and amortization	\$ 17,677	\$ 53,001
Increase in retained earnings (deficit)	\$ (17,677)	\$ (53,001)

- d) Impairment of PP&E assets - Under IFRS, an impairment test of PP&E is performed at the CGU level as opposed to the entire PP&E balance, which was required under Canadian GAAP through the full cost ceiling test. Bonavista is required to recognize an impairment loss if the carrying amount of a CGU exceeds the higher of its fair value less cost to sell and value in use. Under Canadian GAAP, estimated future cash flows used to assess whether an impairment has occurred are not discounted.
- e) Decommissioning liabilities - Under IFRS, Bonavista remeasured its liability for asset retirement obligations using the risk-free rate of interest. IFRS requires that asset retirement obligations be re-measured each reporting period for changes in the discount rate with a corresponding adjustment to the cost of property, plant and equipment. At September 30, 2010, Bonavista’s total of its decommissioning liabilities increased by \$150.3 million to \$321.5 million as the liability was revalued to reflect the estimated risk free rate of interest of 4.1% as compared to the credit adjusted risk-free rate of 7.5% used previously under Canadian GAAP.

<b>Consolidated statement of financial position</b>	<b>As at September 30, 2010</b>
(thousands)	
Increase in decommissioning liabilities	\$ 150,335
Decrease in retained earnings (deficit)	(134,471)
Change in decommissioning liabilities	\$ 15,864

<b>Consolidated statement of income and comprehensive income</b>	<b>For the three months ended September 30, 2010</b>	<b>For the nine months ended September 30, 2010</b>
(thousands)		
Increase in finance costs	\$ 44	\$ 150

- f) Exchangeable shares - Under IFRS, exchangeable shares are considered to be a puttable financial instrument and are classified as a financial liability. They were recorded on the opening statement of financial position at their fair value. As at September 30, 2010, Bonavista's liability associated with Bonavista Petroleum Ltd. exchangeable shares under IFRS was \$493.6 million. On December 31, 2010 Bonavista completed its conversion from an energy trust to a corporation resulting in exchangeable shares being classified as equity under IFRS.

<b>Consolidated statement of financial position</b>	<b>As at September 30, 2010</b>
(thousands)	
Increase in fair market value of exchangeable shares - liability	\$ 527,026
Increase in shareholders capital	14,447
Changes in exchangeable shares - equity	(57,309)
Decrease in retained earnings (deficit)	\$ 484,164

<b>Consolidated statement of income and comprehensive income</b>	<b>For the three months ended September 30, 2010</b>	<b>For the nine months ended September 30, 2010</b>
(thousands)		
Increase in finance costs	\$ 33,810	\$ 64,322

- g) Share-based compensation - Under IFRS, Bonavista's common share incentive rights and restricted common share incentive rights were considered to be cash-settled awards and were classified as a liability. The liability is measured at fair value with subsequent changes in the fair value recognized in the statement of comprehensive income. As at September 30, 2010, Bonavista's liability associated with common share-based compensation under IFRS was \$19.3 million. On December 31, 2010, Bonavista completed its conversion from an energy trust to a corporation resulting in common share-based awards to be classified as equity under IFRS.

<b>Consolidated statement of financial position</b>	<b>As at September 30, 2010</b>
(thousands)	
Increase in fair market value of share-based compensation - current liability	\$ 13,858
Increase in fair market value of share-based compensation - long-term liability	5,394
Decrease in shareholders' capital	(4,653)
Changes in contributed surplus	(13,695)
Changes in retained earnings (deficit)	(1,330)
Capitalization of share-based compensation	\$ (426)

<b>Consolidated statement of income and comprehensive income</b>	<b>For the three months ended September 30, 2010</b>	<b>For the nine months ended September 30, 2010</b>
(thousands)		
Changes in fair market value of share-based compensation	\$ 1,267	\$ 1,482

- h) Deferred income taxes - Under IFRS, the Trust was required to calculate deferred income tax using the undistributed profits rate of 39%. Under Canadian GAAP, the Trust was required to use the expected average tax rate for distributed profits of 25%. In addition, under IFRS, changes in net tax position arising from changes in tax rates are recorded outside of profit and loss if the original deferred income tax position was recorded outside of profit and loss. Under Canadian GAAP, all changes in net tax position arising from changes in tax rates are reflected in profit and loss.

As at September 30, 2010 Bonavista recorded an overall decrease of \$5.6 million to its deferred income tax liability upon transition to IFRS with the offset to accumulated earnings of \$892,000 and shareholder's capital of \$4.7 million. The overall decrease in deferred income tax liability is a combination of a \$16.9 million decrease due to the adjustments to the opening balances of property, plant and equipment and decommissioning liabilities on transition to IFRS and a \$11.3 million increase due to the requirement to use the undistributed profits rate.

<b>Consolidated statement of financial position</b>	<b>As at September 30, 2010</b>
(thousands)	
Decrease in deferred income tax asset	\$ -
Decrease in deferred income taxes - current liability	\$ (2,002)
Decrease in deferred income taxes - long-term liability	\$ (3,599)
Increase in shareholders' capital	\$ 4,709
Increase in retained earnings (deficit)	\$ 892

<b>Consolidated statement of income and comprehensive income</b>	<b>For the three months ended September 30, 2010</b>	<b>For the nine months ended September 30, 2010</b>
(thousands)		
Increase in deferred income taxes	\$ 6,940	\$ 19,348

- i) Convertible debentures - Under Canadian GAAP, the convertible debentures issued in 2004 and redeemed in 2010, were treated as a compound instrument with a debt and equity component. The debt component of the debentures has been recorded net of the fair value of the conversion feature and issue costs. The fair value of the conversion feature of the debentures included in equity at the date of issue was \$4.7 million. The issue costs are amortized to net income over the term of the obligation and the debt component of the obligation is adjusted for the amortization as well as for the portion of issue costs relating to conversions. The debt portion is accreted over the term of the obligation to the principal value on maturity with a corresponding charge to the consolidated statement of income.

Under IFRS, the convertible debenture is accounted for as a derivative instrument. A derivative is measured at fair value at each reporting date with changes in value being recorded in the consolidated statement of income.

<b>Consolidated statement of financial position</b>	<b>As at September 30, 2010</b>
(thousands)	
Decrease in contributed surplus	\$ (808)
Changes in retained earnings (deficit)	808
	\$ -

<b>Consolidated statement of income and comprehensive income</b>	<b>For the three months ended September 30, 2010</b>	<b>For the nine months ended September 30, 2010</b>
(thousands)		
Decrease in finance costs	\$ -	\$ (763)

j) Shareholders' capital

<b>Consolidated statement of financial position</b>	<b>As at September 30, 2010</b>
(thousands)	
Share-based compensation	\$ (4,653)
Deferred income taxes	4,709
Exchangeable shares	14,447
	<b>\$ 14,503</b>

k) Contributed surplus

<b>Consolidated statement of financial position</b>	<b>As at September 30, 2010</b>
(thousands)	
Share-based compensation	\$ (13,695)
Convertible debentures	(808)
	<b>\$ (14,503)</b>

l) Retained earnings

<b>Consolidated statement of financial position</b>	<b>As at September 30, 2010</b>
(thousands)	
Share-based compensation	\$ (1,330)
Adjustment to depletion, depreciation and amortization	53,001
Gain on disposition of property, plant and equipment	18,813
Deferred income taxes	892
Decommissioning liabilities	(134,471)
Exchangeable shares	(484,164)
Convertible debentures	808
	<b>\$ (546,451)</b>

## **CORPORATE INFORMATION**

### **DIRECTORS**

**Keith A. MacPhail,**

*Chairman and CEO*

**Ian S. Brown,**

*Independent Businessman*

**Michael M. Kanovsky,**

*Sky Energy Corporation*

**Harry L. Knutson,**

*Nova Bancorp Inc.*

**Margaret A. McKenzie,**

*Range Royalty Management Ltd.*

**Ronald J. Poelzer,**

*Executive Vice President and Vice Chairman*

**Christopher P. Slubicki,**

*OPTI Canada Inc.*

**Walter C. Yeates,**

*Independent Businessman*

### **OFFICERS**

**Keith A. MacPhail,**

*Chairman and CEO*

**Jason E. Skehar,**

*President and COO*

**Ronald J. Poelzer,**

*Executive Vice President and Vice Chairman*

**Glenn A. Hamilton,**

*Senior Vice President and CFO*

**Thomas J. Mullane,**

*Senior Vice President*

**Johannes H. Thiessen,**

*Senior Vice President*

**Scott H. Hanson,**

*Vice President, Production*

**Orest G. Humeniuk,**

*Vice President, Land*

**Bruce W. Jensen,**

*Vice President, Engineering*

**Dean M. Kobelka,**

*Vice President, Finance*

**Wayne E. Merkel,**

*Vice President, Exploration*

**Lynda J. Robinson,**

*Vice President, Human Resources and Administration*

**Hank R. Spence,**

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**Grant A. Zawalsky,**

*Corporate Secretary*

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or

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### **AUDITORS**

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### **BANKERS**

Canadian Imperial Bank of Commerce  
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Bank of Montreal  
Royal Bank of Canada  
The Bank of Nova Scotia  
National Bank of Canada  
Alberta Treasury Branches  
Citibank, N.A. (Canadian Branch)  
HSBC Bank Canada  
Sumitomo Mitsui Banking Corporation of Canada  
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### **REGISTRAR AND TRANSFER AGENT**

Valiant Trust Company  
Calgary, Alberta

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