

BONAVISTA

ENERGY CORPORATION

(TSX:BNP)
 FOR IMMEDIATE RELEASE
 July 28, 2011
 NEWS RELEASE

Announces 2011 Second Quarter Results

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

Highlights

	Three months ended June 30,		%	Six months ended June 30,		%
	2011	2010	Change	2011	2010	Change
Financial						
(\$ thousands, except per share)						
Production revenues	256,100	227,732	12%	494,898	481,364	3%
Funds from operations ⁽¹⁾	138,621	130,068	7%	267,688	276,167	(3%)
Per share ^{(1) (2)}	0.88	0.99	(11%)	1.70	2.15	(21%)
Dividends declared	48,860	63,860	(23%)	97,348	123,950	(21%)
Per share	0.36	0.48	(25%)	0.72	0.96	(25%)
Percentage of funds from operations ⁽¹⁾	35%	49%	(14%)	36%	45%	(9%)
Net income	77,318	67,779	14%	109,339	124,377	(12%)
Per share ⁽²⁾	0.49	0.51	(4%)	0.70	0.97	(28%)
Adjusted net income ⁽³⁾	48,341	65,195	(26%)	106,032	106,833	(1%)
Per share ⁽²⁾	0.31	0.49	(37%)	0.67	0.83	(19%)
Total assets				3,580,097	3,408,346	5%
Long-term debt, net of working capital ⁽⁴⁾				1,096,842	982,109	12%
Long-term debt, net of adjusted working capital ⁽³⁾⁽⁴⁾				1,095,476	999,870	10%
Shareholders' equity				1,870,228	1,322,084	41%
Capital expenditures:						
Exploration and development	107,253	68,086	58%	248,759	169,661	47%
Acquisitions, net	11,855	247,685	(95%)	(3,077)	244,472	(101%)
Weighted average outstanding equivalent shares: (thousands) ⁽²⁾						
Basic	157,398	131,809	19%	157,129	128,451	22%
Diluted	158,488	155,579	2%	158,252	152,121	4%

Operating

(boe conversion – 6:1 basis)

Production:

Natural gas (mmcf/day)	246	238	3%	244	232	5%
Natural gas liquids (bbls/day)	11,838	11,284	5%	11,790	10,986	7%
Oil (bbls/day) ⁽⁸⁾	13,260	14,903	(11%)	13,707	14,718	(7%)
Total oil equivalent (boe/day)	66,037	65,885	-	66,107	64,318	3%
Product prices: ⁽⁵⁾						
Natural gas (\$/mcf)	4.23	4.47	(5%)	4.23	4.95	(15%)
Natural gas liquids (\$/bbl)	55.80	44.44	26%	52.76	47.21	12%
Oil (\$/bbl) ⁽⁸⁾	84.44	66.61	27%	80.06	69.64	15%
Operating expenses (\$/boe)	8.81	7.94	11%	8.64	8.31	4%
General and administrative expenses (\$/boe)	0.94	0.88	7%	0.96	0.88	9%
Cash costs (\$/boe) ⁽⁶⁾	11.58	9.67	20%	11.41	10.04	14%
Operating netback (\$/boe) ⁽⁷⁾	25.84	23.43	10%	25.15	25.45	(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 per share calculations include exchangeable shares which are convertible to common shares on certain terms and conditions, for the comparative periods, exchangeable shares are excluded from the basic per share calculations calculated under the trust structure.
- (3) Amounts have been adjusted to exclude unrealized gains or losses on financial instrument contracts and its related tax impact.
- (4) Amounts exclude convertible debentures, exchangeable shares and share-based compensation.
- (5) Product prices include realized gains or losses on financial instrument contracts.
- (6) Cash costs equal the total of operating, general and administrative, and financing expenses.
- (7) Operating netback equals production revenues including realized gains or losses on financial instrument contracts, less royalties, transportation and operating expenses, calculated on a boe basis.
- (8) Oil includes both conventional and heavy oil.

Share Trading Statistics	Three months ended			
	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010
(\$ per share, except volume)				
High	30.36	32.00	29.50	24.91
Low	27.13	25.12	23.88	22.34
Close	28.57	30.00	28.80	23.89
Average Daily Volume - Shares	345,427	561,706	304,761	309,312

MESSAGE TO SHAREHOLDERS

Bonavista Energy Corporation (“Bonavista”) is pleased to report to shareholders its financial and operating results for the three and six months ended June 30, 2011. The strong operational and financial results for the second quarter of 2011 portray the value of the consistent execution of our proven and disciplined business strategies.

As a result of our successful drilling and acquisition programs in the first half of this year, coupled with our positive outlook for the remainder of the year, we are pleased to announce that the Board of Directors of Bonavista has approved an expanded 2011 capital expenditure program to between \$580 and \$600 million from the previous amount of between \$345 and \$375 million. Approximately \$180 million of this enhanced capital program will be allocated to our acquisition program where we will continue to consolidate complementary growth assets primarily within our Western Region. The remainder of the incremental capital program will be allocated to the expansion of our exploration and development programs focusing on continued success within our key resource plays. As of June 30, 2011 Bonavista incurred capital expenditures of \$258.2 million, including \$14.0 million of acquisitions and \$17.1 million of dispositions. On July 27, 2011 Bonavista entered into an agreement to acquire a private company with assets in Bonavista’s Western Region and the Northern Region for a purchase price of \$95.5 million, subject to adjustments, payable in cash or Common Shares. This incremental capital spending will result in 2011 production increasing to between 70,500 and 71,500 boe per day with exit rates anticipated to grow to between 77,000 and 78,000 boe per day.

In conjunction with the expansion of the 2011 capital expenditure program, Bonavista has entered into an agreement to sell, on a bought deal basis, 7.0 million common shares at a price of \$28.55 per common share for gross proceeds of approximately \$200 million to a syndicate of underwriters.

Highlights for Bonavista in the second quarter of 2011 include:

- Achieved average production volumes of 66,037 boe per day, despite a production loss of approximately 2,300 boe per day for the quarter due to scheduled facility turnarounds. With all but one major plant turnaround for 2011 behind us, we are currently producing approximately 71,500 boe per day;
- Invested \$107.2 million in exploration and development activities, \$11.9 million in net acquisition and divestiture activities and \$1.6 million on head office leasehold improvements resulting in total capital expenditures of \$120.7 million;
- Successfully executed our budgeted exploration and development program despite the wet ground conditions prevalent across much of the Western Canadian Sedimentary Basin. Bonavista’s second quarter program involved drilling 27 wells with an overall success rate of 100% and included 24 horizontal wells in pursuit of unconventional resource development across four different geological horizons;
- Participated at Crown land sales purchasing approximately 12,900 net acres of undeveloped land, further enhancing our organic growth opportunities;
- Generated funds from operations of \$138.6 million (\$0.88 per share) for the three months ended June 30, 2011. Bonavista distributed 35% of these funds for the three months ended June 30, 2011 to shareholders with the remaining funds reinvested to continue growing our production base;
- Continued to record attractive levels of profitability in the second quarter of 2011 with a return on equity of 17% and an adjusted net income to funds from operations ratio of 35%. The above ratios reflect net income adjusted to negate the after tax impact of unrealized gains and losses on financial instrument contracts; 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 \$24.03 per common share.

Second Quarter 2011 Operational Review:

Hoadley Glauconite Liquids Rich Natural Gas

Bonavista drilled 13 operated horizontal wells and participated in the drilling of one non-operated horizontal well on the highly prospective Hoadley Glauconite trend. Based upon initial test rates, our second quarter drilling program has demonstrated greater productivity per well than any other quarter since we initiated horizontal development of this play in 2008. First month production rates resulting from the second quarter program are anticipated to exceed our type curve by approximately 20%. While we are encouraged by these recent results, we continue to view our current type curve as representative for future drilling.

Bonavista continued to advance the development of the south western area of the Hoadley Glauconite trend expanding our success in both the Willesden Green and the Strachan areas. The development success we have experienced to date, coupled with recent land consolidation achievements has further increased our Glauconite drilling inventory to 375 future horizontal drilling locations.

Bonavista successfully commissioned an 80 mmcf per day compression facility at Gilby which has increased our capability to deliver volumes to an underutilized natural gas processing facility offering premium liquid recoveries under an attractive fee for service arrangement. Additionally, the associated gathering system expansion in the Gilby and Willesden Green areas has led to enhanced on-stream efficiencies for both new horizontal wells and more mature production.

With 87 horizontal Glauconite wells now drilled since entering this play in 2008, production results exhibit a high degree of consistency and continue to generate very attractive economics at current commodity prices. Single well economics are robust with capital cost payouts occurring within the first 12 months of production resulting in rates of return of approximately 95%. Our Hoadley Glauconite development program provides abundant capital spending flexibility and remains one of our key growth platforms for 2011 and beyond.

Rosevear Rock Creek Liquids Rich Natural Gas

Bonavista drilled four successful horizontal Rock Creek wells at Rosevear at an average cost of \$3.9 million per well, demonstrating a 15% cost reduction since initiating our horizontal development of this resource. With 11 horizontal wells now on production, we are experiencing a natural gas liquids yield of 40 bbls per mmcf enhancing single well economics with current anticipated rates of return of approximately 80%. Bonavista completed modifications at our Rosevear processing facility in the second quarter of 2011 to assist in the capture of this enhanced liquids profile across our inventory of 35 future horizontal locations.

Pine Creek Bluesky Liquids Rich Natural Gas

After completing our Pine Creek horizontal Bluesky drilling program in the first quarter of 2011, Bonavista initiated a technical study for the expansion of processing capacity at our Pine Creek facility to enable continued development of this pool in 2012. Production from our three horizontal Bluesky wells drilled to date at Pine Creek are currently exhibiting lower than forecasted production declines. This incremental production has resulted in Pine Creek natural gas plant reaching its capacity. These strong production results, when coupled with a natural gas liquids yield of 40 bbls per mmcf, generate exceptional single well economics with rates of return of approximately 150% and payouts occurring within 12 months. With more than 25 remaining horizontal wells to drill at Pine Creek, expanding our processing capacity will maximize value creation with this development in 2012 and beyond.

Cardium Light Oil

Bonavista participated in two successful non-operated Cardium horizontal wells in the second quarter. Three of our most recent Cardium horizontal wells employed a water-based completion technique which has resulted in initial production results meeting or exceeding our expectations. With the success of this completion technique, average capital costs are expected to reduce by approximately \$300,000 per well in the future development of our 120 location inventory.

Based on improving initial production rates and continued optimization of our cost structure, we have increased our 2011 development program for a second consecutive quarter by 25% to 19 horizontal wells. With five horizontal wells drilled to date in 2011, Bonavista currently has two drilling rigs in operation in the Cardium light oil resource play to implement its budgeted 2011 program.

Blueberry Montney Liquids Rich Natural Gas

Bonavista continued our technical and economic assessment of this emerging natural gas resource play throughout the second quarter.

Bonavista's two horizontal Upper Montney wells are now on-stream through our operated 20 mmcf per day compression facility that was commissioned in the second quarter of 2011. Within this production environment, we have experienced stabilizing production performance with the two wells currently averaging approximately 185 boe per day per well, of which 50% is natural gas liquids production. Importantly, our first horizontal well has been on production for eight months and has demonstrated a stable condensate to gas ratio for the last six of those eight months. Collectively, the two wells have produced over 30,000 bbls of free condensate.

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 offsetting industry activity, we consider the Lower Montney horizon to be prospective across approximately 65% of our land base. The resource potential of this play is significant. We anticipate drilling an additional two horizontal wells in the second half of 2011 in progression towards a scalable development program in future years.

Emerging Opportunities

Bonavista recently formed a New Ventures team with a mandate to identify and evaluate new resource opportunities on, or in close proximity to our extensive land base. To date, this team has been focused on tight sand and source rock prospects including the emerging Duvernay shale play. We have currently identified approximately 75 net sections of Duvernay rights within the gas condensate window of this play in our Western Core Region. Given the recent record breaking Crown land sales in the area, we anticipate significant industry activity on this emerging liquids rich resource play in the coming months. Bonavista is currently planning to drill and core a vertical Duvernay well in the second half of 2011.

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 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 13 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 2003. More importantly, profitability metrics remained strong over this period. These results stem from the operational and technical 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 62% 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 15% of the equity of Bonavista, resulting in the alignment of interests with all shareholders.

Outlook

Bonavista continues to apply the same proven strategies that we have employed since inception in 1997. The foundation of these strategies is to consistently exercise cost discipline and a high level of capital spending efficiency in pursuit of organic drilling prospects as well as timely and strategic acquisition opportunities.

For the remainder of 2011, our efforts will remain focused on the development and consolidation of our key resource plays. Due to recent success in these areas, our capital budget for 2011 has been increased to between \$580 and \$600 million which we expect will result in annual production of between 70,500 and 71,500 boe per day and exit rates of between 77,000 and 78,000 boe per day. This production target represents approximately 11% growth over average 2010 production which, when coupled with our consistent dividend, will result in an attractive total return to our shareholders.

As always, we remain attentive to additional opportunities to enhance our future growth prospects and operational strengths within each of our core regions.

Our current inventory of approximately 1,360 drilling locations represents a new record level and offers robust economics with approximately 80% targeting high impact, unconventional resource prospects. Our timely and prudent approach to capital investment has been very effective in the past and steadfast commitment to adding shareholder value will continue to be the foundation for our future success. Today, our efficiency, productivity, and confidence are among the highest level in our 13 year history.

We are proud of our accomplishments over the past 13 years and we remain confident about our future despite the currently depressed natural gas market and macro-economic headwinds. We would like to thank our employees for their significant effort and their continued success in their advancement of capital efficient growth opportunities. 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.

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 July 28, 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 or can be obtained from Bonavista's website at 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) closing of the offering, 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. Investors are also cautioned that cash-on-cash yield represents a blend of return of an investor's initial investment and a return on investors' initial investment and is not comparable to traditional yield on debt instruments where investors are entitled to full return of the principal amount of debt on maturity in addition to a return on investment through interest payments.

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. Funds from operations per share is calculated based on the weighted average number of common shares outstanding consistent with the calculation of net income per share. 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 six months ended June 30, 2011 led to the drilling of 59 wells within our core regions with a success rate of 100%. This program resulted in 38 natural gas wells and 21 oil wells. Profitability continues to guide our exploration and development program which remains flexible to changes in commodity price, development risk and deliverability upside. Once again, our operations in the second quarter have resulted in superior capital efficiencies driven off of strong production performance, healthy reserve additions and a disciplined approach to spending with every well drilled. These activities continue to enhance the predictability in our overall production base while maintaining our reserve life index ("RLI") at approximately 12 years.

Production - For the second quarter of 2011, production increased slightly to 66,037 boe per day when compared to 65,885 boe per day for the same period a year ago, despite experiencing an average production loss of 2,300 boe per day for the quarter resulting from a scheduled facility turnaround. Natural gas production increased 3% to 246 mmcf per day in the second quarter of 2011 from 238 mmcf per day for the same period a year ago, while natural gas liquids production increased 5% to 11,838 bbls per day in the second quarter of 2011 from 11,284 bbls per day for the same period in 2010. Oil production decreased 11% to 13,260 bbls per day in the second quarter of 2011 from 14,903 bbls per day for the same period in 2010 largely due to several minor property dispositions that occurred in the fourth quarter of 2010 and the first quarter of 2011. For the six months ended June 30, 2011, production increased 3% to 66,107 boe per day when compared to 64,318 boe per day for the same period a year ago. Natural gas production increased 5% to 244 mmcf per day in the first six months of 2011 from 232 mmcf per day for the same period a year ago, while natural gas liquids production increased 7% to 11,790 bbls per day in the first six months of 2011 from 10,986 bbls per day for the same period in 2010. Oil production decreased 7% to 13,707 bbls per day in the first six months of 2011 from 14,718 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 six months ended June 30:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Natural gas (mmcf/day)	246	238	244	232
Natural gas liquids (bbls/day)	11,838	11,284	11,790	10,986
Oil (bbls/day)	13,260	14,903	13,707	14,718
Total oil equivalent (boe/day)	66,037	65,885	66,107	64,318

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 71,500 boe per day, consisting of 62% natural gas, 19% natural gas liquids and 19% oil.

Production revenues - Production revenues for the second quarter of 2011 increased 12% to \$256.1 million when compared to \$227.7 million for the same period a year ago, largely due to higher realized oil and natural gas liquids pricing. For the three months ended June 30, 2011, our natural gas price decreased 5% to \$4.23 per mcf, when compared to \$4.47 per mcf realized in the same period in 2010. Natural gas liquids price increased 26% to \$55.80 per bbl for the three months ended June 30, 2011 from \$44.44 per bbl for the same period in 2010. For the three months ended June 30, 2011, oil price increased 27% to \$84.44 per bbl, compared to \$66.61 per bbl for the same period a year ago. For the six months ended June 30, 2011, our natural gas price decreased 15% to \$4.23 per mcf, when compared to \$4.95 per mcf realized in the same period in 2010. In the first half of 2011 our natural gas liquids price increased 12% to \$52.76 per bbl from \$47.21 per bbl for the same period in 2010. For the six months ended June 30, 2011, oil price increased 15% to \$80.06 per bbl, compared to \$69.64 per bbl for the same period a year ago.

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Natural gas (\$/mcf):				
Production revenues	\$ 4.06	\$ 4.25	\$ 4.07	\$ 4.83
Realized gain on financial instrument contracts	0.17	0.22	0.16	0.12
	<u>4.23</u>	<u>4.47</u>	<u>4.23</u>	<u>4.95</u>
Natural gas liquids (\$/bbl):				
Production revenues	55.80	44.44	52.76	47.21
Realized gain on financial instrument contracts	-	-	-	-
	<u>55.80</u>	<u>44.44</u>	<u>52.76</u>	<u>47.21</u>
Oil (\$/bbl):				
Production revenues	87.13	66.44	81.81	69.46
Realized gain/(loss) on financial instrument contracts	(2.69)	0.17	(1.75)	0.18
	<u>84.44</u>	<u>66.61</u>	<u>80.06</u>	<u>69.64</u>
Total (\$/boe):				
Production revenues	42.62	37.98	41.36	41.35
Realized gain on financial instrument contracts	0.08	0.84	0.23	0.47
	<u>\$ 42.70</u>	<u>\$ 38.82</u>	<u>\$ 41.59</u>	<u>\$ 41.82</u>

Commodity price risk management - 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.

For the second quarter of 2011, our risk management program on financial instrument contracts resulted in a gain of \$39.1 million, consisting of a realized gain of \$477,000 and an unrealized gain of \$38.7 million. The realized gain of \$477,000 consisted of a \$3.7 million gain on natural gas commodity derivative contracts and a \$3.2 million loss on crude oil commodity derivative contracts. For the same period in 2010, our risk management program on financial instrument contracts resulted in a net gain of \$7.4 million, consisting of a realized gain of \$5.1 million and an unrealized gain of \$2.3 million. The realized gain of \$5.1 million consisted of a \$4.9 million gain on natural gas commodity derivative contracts and a \$215,000 gain on crude oil commodity derivative contracts.

For the six months ended June 30, 2011, our risk management program on financial instrument contracts resulted in a net gain of \$7.1 million, consisting of a realized gain of \$2.7 million and an unrealized gain of \$4.4 million. The realized gain of \$2.7 million consisted of a \$7.1 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 instrument contracts resulted in a net gain of \$32.4 million, consisting of a realized gain of \$5.5 million and an unrealized gain of \$26.9 million. The realized gain of \$5.5 million consisted of a \$5.0 million gain on natural gas commodity derivative contracts and a \$488,000 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 the commodity price risk through the use of various financial instrument contracts and physical delivery sales contracts.

i) Financial instrument contracts:

As at June 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	July 1, 2011 - October 31, 2011
5,000 gjs/d	CDN\$4.50 - CDN\$7.24 - AECO	July 1, 2011 - October 31, 2011
10,000 gjs/d	CDN\$5.25 - CDN\$7.20 - AECO	July 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	July 1, 2011 - December 31, 2011
4,500 bbls/d	CDN\$85.00 - CDN\$110.13 - WTI	January 1, 2012 - December 31, 2012

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

Volume	Average Price	Term
500 bbls/d	CDN\$85.00 - CDN\$110.00 - WTI	January 1, 2012 - December 31, 2012

As at June 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	July 1, 2011 - October 31, 2011
10,000 gjs/d	CDN\$6.45	Sold Call - AECO	July 1, 2011 - October 31, 2011
1,000 bbls/d	CDN\$100.00	Sold Call - WTI	July 1, 2011 - December 31, 2011
500 bbls/d	USD\$102.50	Sold Call - WTI	July 1, 2011 - December 31, 2011
500 bbls/d	USD\$105.00	Sold Call - WTI	July 1, 2011 - December 31, 2011
1,000 bbls/d	CDN\$105.00	Sold Call - WTI	January 1, 2012 - December 31, 2012

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 June 30, 2011, the fair market value recorded on the consolidated statement of financial position for these financial instrument contracts was a net liability of \$1.4 million, compared to a net asset of \$17.8 million as at June 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 June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Realized gains on financial instrument contracts	\$ 477	\$ 5,065	\$ 2,696	\$ 5,453
Unrealized gains on financial instrument contracts	38,667	2,375	4,413	26,899
	\$ 39,144	\$ 7,440	\$ 7,109	\$ 32,352

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 \$600,000 on net income for those financial instrument contracts that were in place as at June 30, 2011. A \$1.00 increase in the price per barrel of oil - WTI would have a negative impact of approximately \$1.6 million on net income for those financial instrument contracts that were in place as at June 30, 2011. A \$1.00 decrease in the price per barrel of oil - WTI would have a positive impact of \$1.5 million on net income for those financial instrument contracts that were in place as at June 30, 2011.

ii) Physical purchase and sale contracts:

As at June 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	July 1, 2011 - December 31, 2011
19,500 gjs/d	CDN\$3.95 - AECO	July 1, 2011 - October 31, 2011

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

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

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

Royalties - For the three months ended June 30, 2011, royalties increased by 11% to \$39.0 million from \$35.1 million for the same period a year ago, largely attributable to higher oil and natural gas liquids royalties as a result of a 27% increase in oil pricing and a 26% increase in natural gas liquids pricing. In addition, royalties as a percentage of revenues (including realized gains and losses on financial instrument contracts) for the second quarter of 2011 increased to 15.2% compared to 15.1% in same period in 2010. The increase in royalty rates is largely due to the reasons indicated above offset by a significant decrease in natural gas royalties. For the six months ended June 30, 2011, royalties decreased by 1% to \$74.4 million from \$75.3 million for the same period a year ago, largely due to lower natural gas royalties as a result of a 15% decrease in natural gas pricing offset by a significant increase in oil and natural gas liquids royalties. In addition, royalties as a percentage of revenues (including realized gains and losses on financial instrument contracts) for the first six months of 2011 decreased to 14.9% compared to 15.5% in 2010. The decrease in royalty rates is again largely due to similar reasons as discussed above.

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Natural gas (\$/mcf):				
Royalties	0.30	0.40	0.30	0.50
% of revenues ⁽¹⁾	7.0%	9.0%	7.0%	10.0%
Natural gas liquids (\$/bbl):				
Royalties	13.13	10.47	12.62	11.29
% of revenues ⁽¹⁾	23.5%	23.6%	23.9%	23.9%
Oil (\$/bbl):				
Royalties	15.09	11.55	13.84	12.04
% of revenues ⁽¹⁾	17.9%	17.3%	17.3%	17.3%

⁽¹⁾ % of revenues include realized gains and losses on financial instrument contracts

Operating expenses - Operating expenses for the three months ended June 30, 2011 increased 11% to \$52.9 million compared to \$47.6 million for the same period a year ago, and on a per boe basis increased 11% to \$8.81 per boe, from \$7.94 per boe in the comparable period in 2010. Absolute and per unit operating costs have increased throughout the second quarter of 2011 as a result of significant turnaround activity and above normal precipitation levels challenging access to many of our operations. For the six months ended June 30, 2011 operating costs increased 7% to \$103.3 million compared to \$96.7 million for the same period a year ago and on a per boe basis increased 4% to \$8.64 per boe, from \$8.31 per boe in the comparable period in 2010 for similar reasons as stated above. Despite increasing industry activity levels placing upward pressure on all costs, we are maintaining our 2011 operating cost guidance of between \$8.25 and \$8.50 per boe as compared to the 2010 average of \$8.05 per boe.

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Natural gas (\$/mcf)	\$ 1.28	\$ 1.10	\$ 1.24	\$ 1.17
Natural gas liquids (\$/bbl)	9.65	8.92	9.62	9.27
Oil (\$/bbl)	11.54	10.79	11.29	11.01
Total (\$/boe)	\$ 8.81	\$ 7.94	\$ 8.64	\$ 8.31

Transportation expenses - For the three months ended June 30, 2011, transportation expenses decreased 3% to \$9.4 million compared to \$9.7 million for the same period in 2010. For the three months ended June 30, 2011 transportation costs on a per boe basis have decreased 3% to \$1.56 per boe from \$1.61 per boe in the same period in 2010. For the three months ended June 30, 2011 transportation expenses by product were \$0.28 per mcf for natural gas, \$0.85 per bbl for natural gas liquids and \$1.83 per bbl for oil compared to \$0.30 per mcf for natural gas, \$0.42 per bbl for natural gas liquids and \$1.97 per bbl for oil for the same period in 2010. For the six months ended June 30, 2011, transportation expenses increased 3% to \$19.0 million compared to \$18.4 million for the same period in 2010. For the six months ended June 30, 2011 transportation costs on a per boe basis have increased marginally to \$1.59 per boe from \$1.58 per boe in the same period in 2010. For the six months ended June 30, 2011 transportation expenses by product were \$0.29 per mcf for natural gas, \$0.71 per bbl for natural gas liquids and \$1.82 per bbl for oil compared to \$0.30 per mcf for natural gas, \$0.57 per bbl for natural gas liquids and \$1.84 per bbl for oil for the same period in 2010.

General and administrative expenses - General and administrative expenses, after overhead recoveries, increased 8% to \$5.7 million for the three months ended June 30, 2011 from \$5.3 million in the same period in 2010 and increased 13% to \$11.5 million for the six months ended June 30, 2011 from \$10.2 million in the same period in 2010. On a per boe basis, general and administrative expenses increased 7% for the three months ended June 30, 2011 to \$0.94 per boe from \$0.88 per boe in the same period in 2010 and increased 9% to \$0.96 per boe for the six months ended June 30, 2011 from \$0.88 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 \$3.7 million and \$7.1 million for the three and six months ended June 30, 2011, respectively, compared to \$2.0 million and \$5.7 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 5% to \$70.3 million for the three months ended June 30, 2011 from \$66.6 million for the same period in 2010. For the six months ended June 30, 2011, depreciation, depletion and amortization expenses increased 1% to \$130.7 million from \$129.8 million for the same period in 2010. For the three months ended June 30, 2011, the average cost increased to \$11.69 per boe from \$11.11 per boe for the same period in 2010 and for the six months ended June 30, 2011, the average cost decreased to \$10.92 per boe from \$11.15 per boe for the same period a year ago.

Net financing costs - Net financing costs increased 82% to \$11.4 million for the three months ended June 30, 2011 from \$6.3 million for the same period in 2010. The increase in financing costs for the second quarter of 2011 compared to the same period in 2010 is largely attributed to an increase in Bonavista's effective interest rate to 4.3% as compared to 2.0% in the comparable period in 2010. Net financing costs decreased 61% to \$17.3 million for the six months ended June 30, 2011 from \$44.2 million for the same period in 2010. This decrease occurred in 2011 as a result of the reclassification of the exchangeable shares to shareholders' equity on conversion to a corporation on December 31, 2010.

Deferred income taxes - The provision for deferred income taxes increased to \$26.0 million for the three months ended June 30, 2011 from \$1.2 million during the same period in 2010. For the six months ended June 30, 2011, the provision for deferred income taxes was \$36.6 million compared to a deferred income tax provision of \$15.3 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 six months ended June 30, 2010. The deferred income tax provision for the second quarter of 2011 is mainly attributable to the resource tax pools claimed in excess of depletion and depreciation for accounting purposes. Bonavista made no cash payments on tax installments for the three and six months ended June 30, 2011 or for the comparative periods in 2010.

Funds from operations, net income and comprehensive income - For the three months ended June 30, 2011, Bonavista experienced a 7% increase in funds from operations to \$138.6 million (\$0.88 per share, basic) from \$130.1 million (\$0.99 per share, basic) for the same period in 2010. For the six months ended June 30, 2011, Bonavista experienced a 3% decrease in funds from operations to \$267.7 million (\$1.70 per unit, basic) from \$276.2 million (\$2.15 per unit, basic) for the same period in 2010. Funds from operations increased for the three months ended June 30, 2011 due to higher oil and natural gas liquids prices. Net income and comprehensive income for the three months ended June 30, 2011, increased 14% to \$77.3 million (\$0.49 per share, basic) from \$67.8 million (\$0.51 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 six months ended June 30, 2011, decreased 12% to \$109.3 million (\$0.70 per share, basic) from \$124.4 million (\$0.97 per share, basic) for the same period in 2010, largely due to the changes in the unrealized gains and losses on financial instrument contracts.

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 June 30,		Six months ended June 30,	
	2011	2010	2011	2010
(thousands)				
Cash flow from operating activities	\$ 147,340	\$ 112,204	\$ 290,796	\$ 274,078
Finance costs	(10,973)	(5,146)	(21,724)	(9,945)
Decommissioning expenditures	2,255	2,453	9,239	4,563
Changes in non-cash working capital	(1)	20,557	(10,623)	7,471
Funds from operations	\$ 138,621	\$ 130,068	\$ 267,688	\$ 276,167

Capital expenditures - Capital expenditures for the three months ended June 30, 2011 were \$120.7 million, consisting of \$107.2 million spent on exploration and development activities, \$11.9 million spent on net property acquisitions and \$1.6 million spent on head office expenditures. For the same period in 2010, capital expenditures were \$316.9 million, consisting of \$68.1 million spent on exploration and development activities, \$247.7 million spent on net property acquisitions and \$471,000 spent on head office expenditures. Capital expenditures for the six months ended June 30, 2011 were \$255.1 million, consisting of \$248.8 million spent on exploration and development activities, property acquisitions of \$14.0 million and property dispositions of \$17.1 million. Bonavista also incurred head office expenditures of \$9.4 million primarily related to leasehold improvements on its new head office premises. For the same period in 2010 capital expenditures were \$415.6 million, consisting of \$169.7 million spent on exploration and development activities and net property acquisitions of \$244.5 million and \$769,000 spent on head office expenditures. A significant increase in the demand for services has resulted in a modest increase in costs year over year. We will continue to monitor the situation and will rely heavily on our relationships that we have cultivated over the past 13 years.

Liquidity and capital resources - As at June 30, 2011, long-term debt including working capital (excluding associated assets and liabilities from financial instrument contracts) was \$1.1 billion with a debt to second 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 June 30, 2011, Bonavista had approximately \$355.9 million of unused borrowing capacity from its \$1.0 billion bank credit facility.

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.

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 as a result of capacity created from the issuance of senior unsecured debt and the desire to reduce the cost of carrying the larger undrawn bank credit facility.

On July 21, 2011, Bonavista entered into an arrangement with three financial intermediaries to purchase US\$99.8 million across a weighted average term of approximately 8.8 years with an average exchange rate of \$0.995 CDN/USD.

In 2011, Bonavista plans to invest between \$580 and \$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 recently announced 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 June 30, 2011, Bonavista had 157.5 million equivalent common shares outstanding. This includes 21.3 million exchangeable shares, which are exchangeable into 21.7 million common shares. The exchange ratio in effect at June 30, 2011 for exchangeable shares was 1.02061:1. As at July 28, 2011, Bonavista had 157.7 million equivalent common shares outstanding. This includes 21.3 million exchangeable shares, which are exchangeable into 21.8 million common shares. The exchange ratio in effect at July 28, 2011 for exchangeable shares was 1.02500:1. In addition, Bonavista has 4.7 million stock option and common share incentive rights outstanding at July 28, 2011, with an average exercise price of \$22.15 per common share.

Dividends - For the three months ended June 30, 2011, Bonavista declared dividends of \$48.9 million (\$0.36 per share) compared to \$63.9 million (\$0.48 per share) in the same period in 2010. For the six months ended June 30, 2011, Bonavista declared dividends of \$97.3 million (\$0.72 per share) compared to \$124.0 million (\$0.96 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. 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. For 2011, our objective is to distribute approximately 25% to 35% of our funds from operations, which allows us to withhold sufficient funds to finance capital expenditures required to grow our production base in the range of 5% to 7% annually. Our current dividend rate of \$0.12 per share per month will place us within 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 September 30, 2009 to June 30, 2011:

	2011		2010				2009 ⁽¹⁾	
	June 30	March 31	December 31	September 30	June 30	March 31	December 31	September 30
(\$ thousands, except per share amounts)								
Production revenues	256,100	238,798	234,706	222,656	227,732	253,632	232,870	180,977
Net income	77,318	32,021	(66,784)	24,695	67,779	56,598	39,647	33,339
Net income per share:								
Basic	0.49	0.20	(0.50)	0.18	0.51	0.45	0.27	0.25
Diluted	0.49	0.20	(0.50)	0.18	0.51	0.45	0.27	0.25

⁽¹⁾ 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, this eliminated 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 June 30, 2011. There were no material changes to the internal controls over financial reporting during the three months ended June 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.

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	June 30, 2011	December 31, 2010
(unaudited)			
Assets:			
Current assets:			
Accounts receivable		\$ 121,952	\$ 114,430
Prepaid expenses		10,537	14,510
Financial instrument contracts	(3)	8,379	11,413
Other assets		8,892	10,068
		149,760	150,421
Property, plant and equipment	(6)	3,168,001	3,043,223
Exploration and evaluation assets	(7)	231,015	219,590
Goodwill	(7)	31,321	31,321
		\$ 3,580,097	\$ 3,444,555
Liabilities and Shareholders' Equity:			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 191,005	\$ 186,447
Dividends payable		16,296	21,436
Financial instrument contracts	(3)	9,745	12,931
		217,046	220,814
Long-term debt	(9)	1,029,556	951,443
Decommissioning liabilities	(10)	319,196	319,096
Deferred income taxes		144,071	107,519
Financial instrument contracts	(3)	-	4,261
Shareholders' equity:	(8)		
Shareholders' capital		1,215,686	1,162,680
Exchangeable shares		612,444	650,668
Contributed surplus		30,107	28,074
Retained earnings		11,991	-
		1,870,228	1,841,422
		\$ 3,580,097	\$ 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 June 30,		Six months ended June 30,	
(unaudited)		2011	2010	2011	2010
Revenues:					
Production		\$ 256,100	\$ 227,732	\$ 494,898	\$ 481,364
Royalties		(38,998)	(35,095)	(74,372)	(75,324)
		217,102	192,637	420,526	406,040
Realized gains on financial instrument contracts	(3)	477	5,065	2,696	5,453
Unrealized gains on financial instrument contracts	(3)	38,667	2,375	4,413	26,899
		39,144	7,440	7,109	32,352
		256,246	200,077	427,635	438,392
Expenses:					
Operating		52,935	47,585	103,338	96,738
Transportation		9,376	9,650	18,997	18,449
General and administrative		5,674	5,253	11,475	10,194
Share-based compensation		3,652	2,015	7,092	5,692
Gain on dispositions of property, plant and equipment		(386)	(6,348)	(7,122)	(6,348)
Depletion, depreciation and amortization		70,254	66,611	130,693	129,812
		141,505	124,766	264,473	254,537
Income from operating activities		114,741	75,311	163,162	183,855
Finance costs	(4)	14,048	6,068	27,876	46,041
Finance income	(4)	(2,625)	223	(10,605)	(1,871)
Net finance costs		11,423	6,291	17,271	44,170
Income before taxes		103,318	69,020	145,891	139,685
Deferred income taxes	(11)	26,000	1,241	36,552	15,308
Net income and comprehensive income		\$ 77,318	\$ 67,779	\$ 109,339	\$ 124,377
Net income per share – basic		\$ 0.49	\$ 0.51	\$ 0.70	\$ 0.97
Net income per share – diluted		\$ 0.49	\$ 0.51	\$ 0.69	\$ 0.94

See accompanying notes to the condensed consolidated interim financial statements.

BONAVISTA ENERGY CORPORATION

Condensed Consolidated Interim Statements of Changes in Equity

For the six months ended June 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	-	-	124,377	124,377
Issuance of equity, net of issue costs	173,804	-	-	173,804
Issued on property acquisition	675	-	-	675
Issued for cash on exercise of common share incentive rights	8,671	-	-	8,671
Exercise of common share incentive rights	1,917	-	-	1,917
Conversion of restricted share awards	589	-	-	589
Exchangeable shares exchanged for common shares	16,015	-	-	16,015
Dividends declared	-	-	(123,950)	(123,950)
Balance as at June 30, 2010	\$ 1,735,590	\$ 123	\$ (413,629)	\$ 1,322,084

(thousands) (unaudited)	Shareholders' capital	Exchangeable shares	Contributed surplus	Retained Earnings	Total shareholders' equity
Balance as at December 31, 2010	\$ 1,162,680	\$ 650,668	\$ 28,074	\$ -	\$ 1,841,422
Net income for the period	-	-	-	109,339	109,339
Issued for cash on exercise of common share incentive rights	8,373	-	-	-	8,373
Exercise of common share incentive rights	4,722	-	(4,722)	-	-
Conversion of restricted share awards	1,687	-	(1,687)	-	-
Share-based compensation expense	-	-	7,092	-	7,092
Share-based compensation capitalized	-	-	1,350	-	1,350
Exchangeable shares exchanged for common shares	38,224	(38,224)	-	-	-
Dividends declared	-	-	-	(97,348)	(97,348)
Balance as at June 30, 2011	\$ 1,215,686	\$ 612,444	\$ 30,107	\$ 11,991	\$ 1,870,228

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 June 30,		Six months ended June 30,	
		2011	2010	2011	2010
Cash provided by (used in):					
Operating Activities:					
Net income		\$ 77,318	\$ 67,779	\$ 109,339	\$ 124,377
Adjustments for:					
Depletion, depreciation and amortization		70,254	66,611	130,693	129,812
Share-based compensation		3,652	2,015	7,092	5,692
Unrealized gains on financial instrument contracts		(38,667)	(2,375)	(4,413)	(26,899)
Gain on dispositions of property, plant and equipment		(386)	(6,348)	(7,122)	(6,348)
Net finance costs		11,423	6,291	17,271	44,170
Deferred income taxes		26,000	1,241	36,552	15,308
Decommissioning expenditures		(2,255)	(2,453)	(9,239)	(4,563)
Changes in non-cash working capital items	(5)	1	(20,557)	10,623	(7,471)
		147,340	112,204	290,796	274,078
Financing Activities:					
Issuance of equity, net of issue costs		-	170,217	-	170,217
Issuance of senior notes		-	52,625	-	52,625
Repayment of convertible debentures		-	(38,567)	-	(38,567)
Proceeds on exercise of common share incentive rights		4,050	3,967	8,373	8,671
Dividends paid		(48,829)	(62,565)	(102,488)	(122,544)
Interest paid		(13,968)	(5,833)	(20,793)	(9,760)
Proceeds from long-term debt		60,645	87,687	88,579	87,687
Repayment of long-term debt		-	-	-	(27,128)
		1,898	207,531	(26,329)	121,201
Investing Activities:					
Exploration and development		(107,253)	(68,086)	(248,759)	(169,661)
Office equipment and leasehold improvements		(1,634)	(471)	(9,416)	(769)
Property acquisitions		(11,913)	(254,686)	(13,993)	(250,728)
Property dispositions		58	7,001	17,070	6,256
Proceeds on sale of marketable securities		-	3,515	-	8,193
Changes in non-cash working capital items	(5)	(28,496)	(7,008)	(9,369)	11,430
		(149,238)	(319,735)	(264,467)	(395,279)
Change in cash		-	-	-	-
Cash, beginning of period		-	-	-	-
Cash, end of period		\$ -	\$ -	\$ -	\$ -

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 six months ended June 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 8 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 or can be obtained from Bonavista's website at 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 July 28, 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 7 - valuation of goodwill and exploration and evaluation assets
- Note 8(b) - measurement of share-based compensation
- Note 10 - provisions

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. 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 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:

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

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:

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

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 asset retirement obligations are charged against the provision to the extent the provision was established.

k) Revenues:

Revenues from the sale of oil and natural gas is 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 tax:

Income tax expense comprises current and deferred tax. 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 June 30, 2011 Bonavista's receivables consisted of \$82.8 million of receivables from oil and natural gas marketers which has substantially been collected, subsequent to June 30, 2011, \$34.3 million from joint venture partners of which \$6.0 million has been subsequently collected. As at June 30, 2011 Bonavista has \$10.0 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 June 30, 2011 and did not provide for any doubtful accounts during the three months ended June 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 distributions 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. Bonavista maintains a three year revolving credit facility, as outlined in note 9, which may, at the request of the Corporation with the consent of the lenders, be extended on an annual basis. The Corporation also has a series of senior unsecured notes outstanding, as outlined in note 9, 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 June 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	July 1, 2011 - October 31, 2011
5,000 gjs/d	CDN\$4.50 - CDN\$7.24 - AECO	July 1, 2011 - October 31, 2011
10,000 gjs/d	CDN\$5.25 - CDN\$7.20 - AECO	July 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	July 1, 2011 - December 31, 2011
4,500 bbls/d	CDN\$85.00 - CDN\$110.13 - WTI	January 1, 2012 - December 31, 2012

Subsequent to June 30, 2011, Bonavista entered into the following costless collar to sell natural gas and crude oil as follows:

Volume	Average Price	Term
500 bbls/d	CDN\$85.00 - CDN\$110.00 - WTI	January 1, 2012 - December 31, 2012

As at June 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	July 1, 2011 - October 31, 2011
10,000 gjs/d	CDN\$6.45	Sold Call - AECO	July 1, 2011 - October 31, 2011
1,000 bbls/d	CDN\$100.00	Sold Call - WTI	July 1, 2011 - December 31, 2011
500 bbls/d	USD\$102.50	Sold Call - WTI	July 1, 2011 - December 31, 2011
500 bbls/d	USD\$105.00	Sold Call - WTI	July 1, 2011 - December 31, 2011
1,000 bbls/d	CDN\$105.00	Sold Call - WTI	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 June 30, 2011, the fair market value recorded on the consolidated statement of financial position for these financial instrument contracts was a net liability of \$1.4 million, compared to a net asset of \$17.8 million as at June 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 \$600,000 on net income for those financial instrument contracts that were in place as at June 30, 2011. A \$1.00 increase in the price per barrel of oil - WTI would have a negative impact of approximately \$1.6 million on net income for those financial instrument contracts that were in place as at June 30, 2011. A \$1.00 decrease in the price per barrel of oil - WTI would have a positive impact of \$1.5 million on net income for those financial instrument contracts that were in place as at June 30, 2011.

ii) Physical purchase and sale contracts:

As at June 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
19,500	gjs/d	CDN\$3.95 - AECO

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

Volume	Average Price	Term
6	mw/h	CDN\$50.37 - AESO
1	mw/h	CDN\$51.00 - AESO

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.

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 June 30, 2011 would decrease by \$1.2 million.

4. Finance costs and income:

a) Finance costs:

	Three Months ended June 30,		Six Months ended June 30,	
	2011	2010	2011	2010
Finance costs:				
Interest on bank debt	\$ 6,993	\$ 4,303	\$ 13,689	\$ 8,460
Interest on notes payable	4,048	183	8,174	183
Interest on convertible debentures	-	660	-	1,302
Accretion of decommissioning liabilities	3,007	3,036	6,013	5,873
Net change in fair value of financial derivatives	-	(443)	-	(289)
Net change in fair market value of exchangeable shares	-	(1,671)	-	30,512
Finance costs	\$ 14,048	\$ 6,068	\$ 27,876	\$ 46,041

b) Finance income:

	Three Months ended June 30,		Six Months ended June 30,	
	2011	2010	2011	2010
Finance income:				
Marketable securities (gain)/loss	\$ -	\$ 223	\$ -	\$ (1,871)
Foreign exchange gain	(2,625)	-	(10,605)	-
Finance income	\$ (2,625)	\$ 223	\$ (10,605)	\$ (1,871)

The Corporation's effective interest rate for the period ending June 30, 2011 was approximately 4.3% (2010 - 2.3%).

5. Supplemented cash flow information:

Changes in non-cash working capital is comprised of:

	Three Months ended June 30,		Six Months ended June 30,	
	2011	2010	2011	2010
Source/(use) of cash				
Accounts receivable	\$ (8,291)	\$ 20,641	\$ (7,522)	\$ 3,173
Prepaid expenses	1,473	788	3,973	1,016
Other assets	71	(4,546)	1,176	(3,143)
Accounts payable and accrued liabilities, net of interest accrual	(21,748)	(44,448)	3,627	2,913
	\$ (28,495)	\$ (27,565)	\$ 1,254	\$ 3,959
Related to:				
Operating activities	\$ 1	\$ (20,557)	\$ 10,623	\$ (7,471)
Investing activities	(28,496)	(7,008)	(9,369)	11,430
	\$ (28,495)	\$ (27,565)	\$ 1,254	\$ 3,959

6. Property, plant and equipment:

	Oil and natural gas properties	Facilities	Other assets	Total
Cost:				
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	208,378	19,039	9,415	236,832
Acquisitions	27,319	6,727	-	34,046
Transfer from exploration and evaluation	10,303	-	-	10,303
Changes in decommissioning liabilities	3,326	-	-	3,326
Disposals	(24,659)	(5,975)	-	(30,634)
Balance as at June 30, 2011	\$ 3,105,564	\$ 445,722	\$ 14,122	\$ 3,565,408
Depletion, depreciation and amortization:				
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	(119,023)	(10,762)	(908)	(130,693)
Disposals	1,279	319	-	1,598
Balance as at June 30, 2011	\$ (364,170)	\$ (31,388)	\$ (1,849)	\$ (397,407)

Net book value as at June 30, 2011	\$ 2,741,394	\$ 414,334	\$ 12,273	\$ 3,168,001
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. Goodwill and exploration and evaluation assets :

	Goodwill	Exploration and evaluation assets
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)	-
Balance as at December 31, 2010	\$ 31,321	\$ 219,590
Additions	-	22,692
Acquisitions	-	74
Dispositions	-	(1,038)
Transfers to property, plant and equipment	-	(10,303)
Balance as at June 30, 2011	\$ 31,321	\$ 231,015

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.

8. Share capital:

At June 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 on conversion of exchangeable shares	1,333
Issued upon exercise of common shares incentive rights	461
Conversion of restricted share awards	34
Balance as at June 30, 2011	135,803

(ii) Exchangeable shares:

(thousands)	
Balance as at December 31, 2010	22,593
Exchanged for common shares	(1,328)
Balance as at June 30, 2011	21,265
Exchange ratio as at June 30, 2011	1.02061
Common shares issuable on exchange as at June 30, 2011	21,704

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. Option exercise prices are equal to the weighted average trading price of the five trading days preceding the date of grant. The fair value of options granted is estimated on the date of grant using the Black-Scholes option pricing model and recognized as share-based compensation expense over the vesting period with a corresponding increase to contributed surplus. Upon exercise of the options, the fair value is moved from contributed surplus into share capital.

The following tables summarize the stock option and common share incentive rights outstanding and exercisable under the plans at June 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	1,402,163	28.83
Exercised	(461,424)	(18.15)
Expired and forfeited	(151,077)	(23.74)
Reduction in exercise price	-	(0.54)
Balance as at June 30, 2011	4,746,390	\$ 22.30
Exercisable as at June 30, 2011	787,831	\$ 21.31

As at June 30, 2011 there are 1.4 million stock options outstanding with nil exercisable and 3.3 million common share incentive rights outstanding with 787,831 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
\$ 11.59 - 20.01	1,668,340	2.6	\$ 14.80	391,609	\$ 15.04
20.02 - 28.68	1,253,055	3.1	22.33	104,967	21.38
28.69 - 35.99	1,824,995	3.6	29.14	291,255	29.70
\$ 11.59 - 35.99	4,746,390	3.1	\$ 22.30	787,831	\$ 21.31

(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 June 30, 2011:

Balance as at December 31, 2010	248,552
Granted	252,548
Exercised	(49,416)
Forfeited	(21,468)
Balance as at June 30, 2011	430,216

As at June 30, 2011, there were 188,834 restricted common share rights outstanding and 241,382 restricted share awards outstanding.

As at June 30, 2011, the balance of contributed surplus attributable to the share-based compensation awards was \$30.0 million. Share-based compensation expense recognized in the three and six months ended June 30, 2011 was \$3.7 million and \$7.1 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 June 30,		Six Months ended June 30,	
	2011	2010	2011	2010
(thousands)				
Common shares	135,688	131,809	135,079	128,451
Exchangeable shares converted at the exchange ratio	21,710	-	22,050	-
Basic equivalent shares	157,398	131,809	157,129	128,451
Exchangeable shares	-	21,823	-	21,697
Convertible debentures	-	1,315	-	1,323
Stock option and common share incentive rights	680	390	726	402
Restricted share award incentive plan and restricted common share incentive rights	410	242	397	248
Diluted equivalent shares	158,488	155,579	158,252	152,121

9. Long-term debt:

	June 30, 2011	December 31, 2010
(thousands)		
Bank credit facility	\$ 644,089	\$ 555,348
Senior unsecured notes	385,467	396,095
Balance, end of period	\$1,029,556	\$ 951,443

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. 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 three year revolving credit and may, at the request of the Corporation with the consent of the lenders, be extended on an annual basis. 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. 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.

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 second 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, 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	US \$90.0 million	3.66%	November 2, 2017
November 2, 2010	US \$160.0 million	4.37%	November 2, 2020
November 2, 2010	US \$50.0 million	4.47%	November 2, 2022

On July 21, 2011, Bonavista entered into an arrangement with three financial intermediaries to purchase US\$99.8 million across a weighted average term of 8.8 years with an average exchange rate of \$0.995CDN/USD.

10. 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 \$771.6 million (2010 - \$787.2 million) which will be incurred over the next 30 years. The majority of the costs will be incurred between 2012 and 2041. 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 June 30,		Six Months ended June 30,	
	2011	2010	2011	2010
(thousands)				
Balance, beginning of period	\$ 316,124	\$ 299,405	\$ 319,096	\$ 294,635
Accretion expense	3,007	3,036	6,013	5,873
Liabilities incurred	2,689	1,297	3,754	5,340
Liabilities acquired	511	16,063	511	16,063
Liabilities disposed	-	-	(3,786)	-
Liabilities settled	(2,255)	(2,453)	(9,239)	(4,563)
Change in estimate	(880)	-	2,847	-
Deferred income taxes	\$ 319,196	\$ 317,348	\$ 319,196	\$ 317,348

11. 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 June 30,		Six Months ended June 30,	
	2011	2010	2011	2010
(thousands)				
Net income before tax	\$ 103,318	\$ 69,020	\$ 145,891	\$ 139,685
Current statutory income tax rate	26.6%	28.1%	26.6%	28.1%
Income tax expense (benefit) at current statutory rate	27,483	19,394	38,807	39,250
Loss on exchangeable shares	-	(471)	-	8,593
Distributions to unitholders	-	(17,985)	-	(34,907)
Effect of tax rate changes and rate variance	(2,083)	(409)	(2,715)	874
Other	600	712	460	1,498
Deferred income taxes	\$ 26,000	\$ 1,241	\$ 36,552	\$ 15,308

12. Subsequent event:

On July 28, 2011, Bonavista agreed to sell, to a syndicate of underwriters, 7.0 million common shares at a price of \$28.55 per common share for gross proceeds of approximately \$200 million.

13. First time adoption of International Financial Reporting Standards:

The condensed consolidated interim financial statements as at June 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 six months ended June 30, 2011, the comparative information for the three and six months ended June 30, 2010, the balance sheet for the year ended December 31, 2010.

In preparing the condensed consolidated interim financial statements for the three and six months ended June 30, 2011, the comparative information for the three and six months ended June 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 June 30, 2010:

(thousands) (unaudited)	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets:				
Current assets:				
Accounts receivable		\$ 101,739	\$ -	\$ 101,739
Prepaid expenses		15,896	-	15,896
Financial instrument contracts		19,501	-	19,501
Other assets		9,682	-	9,682
		146,818	-	146,818
Property, plant and equipment	(a)	3,166,566	(173,053)	2,993,513
Exploration and evaluation assets	(b)	-	226,694	226,694
Goodwill		41,321	-	41,321
		\$ 3,354,705	\$ 53,641	\$ 3,408,346
Liabilities and Shareholders' Equity:				
Current liabilities:				
Accounts payable and accrued liabilities		\$ 160,117	\$ -	\$ 160,117
Dividends payable		21,343	-	21,343
Financial instrument contracts		1,740	-	1,740
Exchangeable shares	(f)	-	493,634	493,634
Share-based compensation	(g)	-	9,869	9,869
Deferred income taxes	(h)	5,179	(5,179)	-
		188,379	498,324	686,703
Long-term debt		945,727	-	945,727
Decommissioning liabilities	(e)	170,577	146,771	317,348
Deferred income taxes	(h)	136,750	(7,245)	129,505
Share-based compensation	(g)	-	6,979	6,979
Shareholders' equity:				
Shareholders' capital	(j)	1,720,265	15,325	1,735,590
Exchangeable shares	(f)	57,358	(57,358)	-
Contributed surplus	(k)	14,746	(14,623)	123
Retained earnings (Deficit)	(l)	120,903	(534,532)	(413,629)
		1,913,272	(591,188)	1,322,084
		\$ 3,354,705	\$ 53,641	\$ 3,408,346

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

(thousands) (unaudited)	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
Revenue:				
Production		\$ 227,732	\$ -	\$ 227,732
Royalties		(35,095)	-	(35,095)
		192,637	-	192,637
Realized gain on financial instrument contracts		5,065	-	5,065
Unrealized gain on financial instrument contracts		2,375	-	2,375
		7,440	-	7,440
		200,077	-	200,077
Expenses:				
Operating		47,585	-	47,585
Transportation		9,650	-	9,650
General and administrative expenses		5,253	-	5,253
Share-based compensation	(g)	2,746	(731)	2,015
Gain on disposition of property, plant and equipment		-	(6,348)	(6,348)
Depletion, depreciation and amortization	(c)	85,806	(19,195)	66,611
		151,040	(26,274)	124,766
Income from operating activities		49,037	26,274	75,311
Finance costs	(e)(f)(i)	8,347	(2,279)	6,068
Finance income		223	-	223
Net finance costs		8,570	(2,279)	6,291
Income before income taxes		40,467	28,553	69,020
Deferred income taxes	(h)	(4,982)	6,223	1,241
Net income and comprehensive income		\$ 45,449	\$ 22,330	\$ 67,779
Net income per share – basic		\$ 0.30	\$ 0.21	\$ 0.51
Net income per share – diluted		\$ 0.29	\$ 0.22	\$ 0.51

Reconciliation of total comprehensive income for the six months ended June 30, 2010:

(thousands) (unaudited)	Notes	Canadian GAAP	Effect of transition to IFRS	IFRS
Revenue:				
Production		\$ 481,364	\$ -	\$ 481,364
Royalties		(75,324)	-	(75,324)
		406,040	-	406,040
Realized gain on financial instrument contracts		5,453	-	5,453
Unrealized gain on financial instrument contracts		26,899	-	26,899
		32,352	-	32,352
		438,392	-	438,392
Expenses:				
Operating		96,738	-	96,738
Transportation		18,449	-	18,449
General and administrative expenses		10,194	-	10,194
Share-based compensation	(g)	5,477	215	5,692
Gain on disposition of property, plant and equipment		-	(6,348)	(6,348)
Depletion, depreciation and amortization	(c)	165,136	(35,324)	129,812
		295,994	(41,457)	254,537
Income from operating activities		142,398	41,457	183,855
Finance costs	(e)(f)(i)	16,186	29,855	46,041
Finance income		(1,871)	-	(1,871)
Net finance costs		14,315	29,855	44,170
Income before income taxes		128,083	11,602	139,685
Deferred income taxes	(h)	2,900	12,408	15,308
Net income and comprehensive income		\$ 125,183	\$ (806)	\$ 124,377
Net income per share – basic		\$ 0.83	\$ 0.14	\$ 0.97
Net income per share – diluted		\$ 0.82	\$ 0.12	\$ 0.94

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.

Consolidated statement of financial position (thousands)	As at June 30, 2010
Decrease due to transfer of exploration and evaluation assets	\$ (226,694)
Adjustment required for recorded gains on disposition of property, plant and equipment	6,348
Increase due to adjustment in depletion, depreciation and amortization	35,324
Change in decommissioning liabilities	12,344
Capitalization of share-based compensation	(375)
Net change in property, plant and equipment	\$ (173,053)

Consolidated statement of income and comprehensive income (thousands)	For the three months ended June 30, 2010	For the six months ended June 30, 2010
Gain on disposition of property, plant and equipment	\$ (6,348)	\$ (6,348)
Increase in retained earnings (deficit)	\$ 6,348	\$ 6,348

- 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 June 30, 2010.

Consolidated statement of financial position (thousands)	As at June 30, 2010
Increase in exploration and evaluation assets	\$ 226,694

- 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.

Consolidated statement of income and comprehensive income (thousands)	For the three months ended June 30, 2010	For the six months ended June 30, 2010
Decrease in depletion, depreciation and amortization	\$ (19,195)	\$ (35,324)
Increase in retained earnings (deficit)	\$ 19,195	\$ 35,324

- 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 is currently 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 June 30, 2010, Bonavista's total of its decommissioning liabilities increased by \$146.8 million to \$317.3 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.

Consolidated statement of financial position (thousands)	As at June 30, 2010
Increase in decommissioning liabilities	\$ 146,771
Decrease in retained earnings (deficit)	(134,427)
Change in decommissioning liabilities	\$ 12,344

Consolidated statement of income and comprehensive income (thousands)	For the three months ended June 30, 2010	For the six months ended June 30, 2010
Increase in finance costs	\$ 67	\$ 106

- 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 June 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.

Consolidated statement of financial position (thousands)	As at June 30, 2010
Increase in fair market value of exchangeable shares - liability	\$ 493,634
Increase in shareholders capital	14,077
Changes in exchangeable shares - equity	(57,358)
Decrease in retained earnings (deficit)	\$ (450,353)

Consolidated statement of income and comprehensive income (thousands)	For the three months ended June 30, 2010	For the six months ended June 30, 2010
Increase/(decrease) in finance costs	\$ (1,671)	\$ 30,512

- 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 June 30, 2010, Bonavista's liability associated with common share-based compensation under IFRS was \$16.8 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.

Consolidated statement of financial position (thousands)	As at June 30, 2010
Increase in fair market value of share-based compensation - current liability	\$ 9,869
Increase in fair market value of share-based compensation - long-term liability	6,979
Decrease in shareholders' capital	(3,345)
Changes in contributed surplus	(13,815)
Changes in retained earnings (deficit)	(63)
Capitalization of share-based compensation	\$ (375)

Consolidated statement of income and comprehensive income	For the three months ended	For the six months ended
(thousands)	June 30, 2010	June 30, 2010
Changes in fair market value of share-based compensation	\$ (731)	\$ 215

- 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 June 30, 2010 Bonavista recorded an overall decrease of \$12.4 million to its deferred income tax liability upon transition to IFRS with the offset to accumulated earnings of \$7.8 million and shareholder's capital of \$4.6 million. The overall decrease in deferred income tax liability is a combination of a \$24.6 million decrease due to the adjustments to the opening balances of property, plant and equipment and decommissioning liabilities on transition to IFRS and a \$12.2 million increase due to the requirement to use the undistributed profits rate.

Consolidated statement of financial position	As at
(thousands)	June 30, 2010
Decrease in deferred income tax asset	\$ -
Decrease in deferred income taxes - current liability	\$ (5,179)
Decrease in deferred income taxes - long-term liability	\$ (7,245)
Increase in shareholders' capital	\$ 4,593
Increase in retained earnings (deficit)	\$ 7,831

Consolidated statement of income and comprehensive income	For the three months ended	For the six months ended
(thousands)	June 30, 2010	June 30, 2010
Increase in deferred income taxes	\$ 6,223	\$ 12,408

- 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.

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

Consolidated statement of income and comprehensive income	For the three months ended	For the six months ended
(thousands)	June 30, 2010	June 30, 2010
Decrease in finance costs	\$ (675)	\$ (763)

j) Shareholders' capital

Consolidated statement of financial position (thousands)	As at June 30, 2010
Share-based compensation	\$ (3,345)
Deferred income taxes	4,593
Exchangeable shares	14,077
	\$ 15,325

k) Contributed surplus

Consolidated statement of financial position (thousands)	As at June 30, 2010
Share-based compensation	\$ (13,815)
Convertible debentures	(808)
	\$ (14,623)

l) Retained earnings

Consolidated statement of financial position (thousands)	As at June 30, 2010
Share-based compensation	\$ (63)
Adjustment to depletion, depreciation and amortization	35,324
Gain on disposition of property, plant and equipment	6,348
Deferred income taxes	7,831
Decommissioning liabilities	(134,427)
Exchangeable shares	(450,353)
Convertible debentures	808
	\$ (534,532)

INVESTOR INFORMATION

Bonavista is a mid sized energy corporation committed to maintaining its emphasis on operating high quality oil and natural gas properties, providing moderate growth and delivering consistent dividends to its shareholders and ensuring financial strength and sustainability.

Corporate information provided herein contains forward-looking information. The reader is cautioned that assumptions used in the preparation of such information, particularly those pertaining to cash distributions, production volumes, commodity prices, operating costs and drilling results, which are considered reasonable by Bonavista at the time of preparation, may be proven to be incorrect. Actual results achieved during the forecast period will vary from the information provided herein and the variations may be material. There is no representation by Bonavista that actual results achieved during the forecast period will be the same in whole or in part as those forecast.

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