For the Three
Months ended
March 31, 2016

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BONTERRA ENERGY REPORTS FIRST QUARTER 2016 FINANCIAL AND OPERATING RESULTS

HIGHLIGHTS

As at and for the three months ended ($000s except $ per share)		**March 31, 2016**	December 31, 2015	March 31, 2015
FINANCIAL				
Revenue – realized oil and gas sales		**33,510**	44,678	42,480
Funds flow [(2)]		**16,372**	24,046	22,090
Per share – basic		**0.49**	0.71	0.69
Per share – diluted		**0.49**	0.71	0.69
Payout ratio		**61%**	62%	87%
Cash flow from operations		**11,146**	27,808	26,079
Per share – basic		**0.34**	0.84	0.81
Per share – diluted		**0.34**	0.84	0.81
Payout ratio		**89%**	54%	74%
Cash dividends per share		**0.30**	0.45	0.60
Net loss		**(11,555)**	(4,113)	(1,935)
Per share – basic		**(0.35)**	(0.13)	(0.06)
Per share – diluted		**(0.35)**	(0.13)	(0.06)
Capital expenditures, net of dispositions		**1,683**	8,384	21,760
Acquisition		**-**	-	17,200 [(1)]
Total assets		**1,174,141**	1,183,593	1,072,534
Working capital deficiency		**13,115**	29,804	37,633
Long-term debt		**345,118**	332,471	207,217
Shareholders' equity		**575,925**	595,805	613,886
OPERATIONS				
Oil	- barrels per day	**8,325**	8,424	8,128
	- average price ($ per barrel)	**37.33**	49.50	48.70
NGLs	- barrels per day	**845**	710	791
	- average price ($ per barrel)	**14.72**	21.49	22.36
Natural gas	- MCF per day	**22,274**	20,423	19,709
	- average price ($ per MCF)	**2.02**	2.61	2.97
Total barrels of oil equivalent per day (BOE) [(3)]		**12,882**	12,538	12,204

(1) Includes a deposit of $17,200,000 for a purchase of primarily Pembina Cardium oil and gas assets that closed on April 15, 2015.

(2) Funds flow is not a recognized measure under IFRS. For these purposes, the Company defines funds flow as funds provided by operations including proceeds from sale of investments and investment income received excluding the effects of changes in non-cash working capital items and decommissioning expenditures settled.

(3) BOE may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 MCF: 1 bbl is based on an energy conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

REPORT TO SHAREHOLDERS

Bonterra Energy Corp. (“Bonterra” or the “Company”) is pleased to report its financial and operational results for the three months ended March 31, 2016. It has been a difficult period for oil and natural gas companies. Commodity prices were lower than they have been for many years and government tax increases have also impacted company net profits.

Highlights for the quarter include:

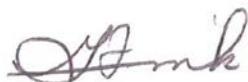
- Production volumes averaging 12,882 barrels of oil equivalent (BOE) per day.
- Overall costs of royalties, operating, general and administration, and bank interest totalled $17.90 per BOE. Average revenue per BOE for the quarter was $28.59 (realized product prices were: crude oil $37.33; NGL’s $14.72 and natural gas $2.02) per BOE which resulted in corporate netbacks of $10.70 per BOE.
- Funds flow for the quarter was $16.4 million. Dividends paid were $10 million and capital expenditures were $1.7 million for total cash outlays of $11.7 million – which represents a sustainable ratio of 71 percent.
- Per well costs for drilling, completion and tie-ins have been further reduced by 12 percent to approximately $1.5 million for one mile lateral wells.
- The Company’s projected capital expenditures for 2016 continue to be $40 million; most of which will be spent in the last half of 2016.
- On average, approximately 1,100 BOE per day was shut in during Q1, 2016 due to low commodity prices.

Outlook

Management anticipates that commodity prices will slightly increase for the balance of 2016 resulting in somewhat better corporate netbacks on a per BOE basis relative to the Q1, 2016 netback per BOE of $10.70, and resulting in overall higher funds flow during the last three quarters of 2016.

Fundamentally Bonterra has positioned itself to achieve very positive results when commodity prices recover. Overall costs for new wells and the Company’s operating and administration expenses are some of the lowest in the industry. The Company’s inventory of economic undrilled locations still exceeds 15 years and the necessary infrastructure is in place, which means minimal expenditures are required for gas plants, oil battery facilities or pipelines.

We believe we are nearing the end of a difficult cycle and appreciate the support of our shareholders.



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

Management's Discussion and Analysis

The following report dated May 11, 2016 is a review of the operations and current financial position for the three months ended March 31, 2016 for Bonterra Energy Corp. ("Bonterra" or "the Company") and should be read in conjunction with the unaudited condensed financial statements and the audited financial statements including the notes related thereto for the fiscal year ended December 31, 2015 presented under International Financial Reporting Standards (IFRS).

Use of Non-IFRS Financial Measures

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

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

Frequently Recurring Terms

Bonterra uses the following frequently recurring terms in this MD&A: "WTI" refers to West Texas Intermediate, a grade of light sweet crude oil used as benchmark pricing in the United States; "MSW Stream Index" or "Edmonton Par" refers to the mixed sweet blend that is the benchmark price for conventionally produced light sweet crude oil in Western Canada; "bbl" refers to barrel; "NGL" refers to Natural gas liquids; "MCF" refers to thousand cubic feet; "MMBTU" refers to million British Thermal Units; and "BOE" refers to barrels of oil equivalent. Disclosure provided herein in respect of a BOE may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 MCF: 1 bbl is based on an energy conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Numerical Amounts

The reporting and the functional currency of the Company is the Canadian dollar.

QUARTERLY COMPARISONS

	2016	2015			
As at and for the periods ($ 000s except $ per share)	**Q1**	Q4	Q3	Q2 [1]	Q1
Financial					
Revenue – oil and gas sales	**33,510**	44,678	52,160	57,921	42,480
Cash flow from operations	**11,146**	27,808	36,024	17,960	26,079
Per share – basic	**0.34**	0.84	1.09	0.56	0.81
Per share – diluted	**0.34**	0.84	1.09	0.56	0.81
Payout ratio	**89%**	54%	41%	81%	74%
Cash dividends per share	**0.30**	0.45	0.45	0.45	0.60
Net earnings (loss)	**(11,555)**	(4,113)	(321)	(2,711)	(1,935)
Per share – basic	**(0.35)**	(0.13)	(0.01)	(0.08)	(0.06)
Per share – diluted	**(0.35)**	(0.13)	(0.01)	(0.08)	(0.06)
Capital expenditures, net of dispositions	**1,683**	8,384	14,402	13,952	21,760
Acquisition	**-**	-	-	153,230 [2]	17,200 [3]
Total assets	**1,174,141**	1,183,593	1,200,856	1,225,291	1,072,534
Working capital deficiency	**13,115**	29,804	29,080	27,558	37,633
Long-term debt	**345,118**	332,471	335,863	361,430	207,217
Shareholders' equity	**575,925**	595,805	610,793	599,911	613,886
Operations					
Oil (barrels per day)	**8,325**	8,424	9,177	8,823	8,128
NGLs (barrels per day)	**845**	710	753	677	791
Natural gas (MCF per day)	**22,274**	20,423	19,191	19,452	19,709
Total BOE per day	**12,882**	12,538	13,129	12,743	12,204

[1] Quarterly figures for Q2 2015 include the results of a purchase (the Acquisition) of primarily Pembina Cardium oil and gas assets (Pembina Assets) for the period of April 15, 2015 to December 31, 2015. Production includes 76 days for the Pembina Assets and 91 days for the original Bonterra assets.

[2] Includes $153,230,000 (less a deposit of $17,200,000) for the Acquisition that closed on April 15, 2015.

[3] Includes a deposit of $17,200,000 for the Acquisition.

	2014			
As at and for the periods ended ($ 000s except $ per share)	Q4	Q3	Q2	Q1
Financial				
Revenue – oil and gas sales	68,940	88,959	99,274	82,521
Cash flow from operations	50,465	65,705	57,089	49,094
Per share – basic	1.57	2.05	1.79	1.56
Per share – diluted	1.57	2.03	1.78	1.55
Payout ratio	57%	44%	49%	56%
Cash dividends per share	0.90	0.90	0.87	0.87
Net earnings (loss)	(32,877) [4]	20,983	27,614	23,041
Per share – basic	(1.04)	0.65	0.87	0.73
Per share – diluted	(1.03)	0.65	0.86	0.73
Capital expenditures, net of dispositions	20,605	41,205	39,519	54,236
Total assets	1,042,938	1,080,801	1,066,145	1,043,822
Working capital deficiency	53,642	55,047	36,399	62,488
Long-term debt	154,723	140,339	151,145	143,103
Shareholders’ equity	635,198	697,337	699,284	678,224
Operations				
Oil (barrels per day)	8,762	8,874	9,109	7,567
NGLs (barrels per day)	911	818	775	721
Natural gas (MCF per day)	22,883	21,981	24,163	22,307
Total BOE per day	13,488	13,355	13,911	12,006

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

Business Environment and Sensitivities

Bonterra's financial results are significantly influenced by fluctuations in commodity prices, including price differentials and foreign exchange. The following table depicts selective market benchmark prices and foreign exchange rates in the last eight quarters to assist in understanding volatility in prices and foreign exchange rates that have impacted Bonterra's financial and operating performance. The increases or decreases for Bonterra's realized price for oil and natural gas for each of the eight quarters is explained in detail in the following table.

	Q1-2016	Q4-2015	Q3-2015	Q2-2015	Q1-2015	Q4-2014	Q3-2014	Q2-2014
Crude oil								
WTI (U.S.$/bbl)	**33.45**	42.18	46.43	57.94	48.63	73.15	97.17	102.99
WTI to MSW Stream Index								
Differential (U.S.$/bbl)[1]	**(3.78)**	(2.51)	(3.45)	(2.93)	(6.93)	(6.46)	(7.93)	(6.14)
Foreign exchange								
U.S.$ to Cdn$	**1.3748**	1.3353	1.3094	1.2294	1.2411	1.1357	1.0893	1.0905
Bonterra average realized								
oil price (Cdn$/bbl)	**37.33**	49.50	53.26	64.27	48.70	71.37	92.73	102.36
Natural gas								
AECO (Cdn$/mcf)	**1.82**	2.45	2.89	2.64	2.74	3.58	4.00	4.67
Bonterra average realized								
gas price (Cdn$/mcf)	**2.02**	2.61	3.36	2.83	2.97	3.92	4.54	4.85

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

The overall volatility in Bonterra's average realized commodity pricing can be impacted by numerous events, including but not limited to:

- Worldwide crude oil supply and demand imbalance;
- Geo-political events that affect worldwide crude oil production;
- The value of the Canadian dollar compared to the U.S. dollar;
- The availability of take-away capacity to transport energy commodities;
- Weather dependence; the warm winter across North America has led to above average natural gas and distillate (such as heating oil) inventories; and
- Timing of plant and refinery turnarounds.

During the first quarter of 2016, WTI averaged $33.45 US per bbl and at times traded below $30. This was primarily due to the worldwide crude oil supply and demand imbalance driven by continued global production gains and high inventories. Subsequent to March 31, 2016, the WTI price has increased as North American production declines appear to have commenced and global demand continues to grow. Nonetheless, inventories and global supply continue to remain high, making future pricing difficult to predict.

The following chart shows the Company's sensitivity to key commodity price variables. The sensitivity calculations are performed independently and show the effect of changing one variable while holding all other variables constant.

Annualized sensitivity analysis on cash flow, as estimated for 2016[1]

Impact on cash flow	Change ($)	$000s	$ per share[2]
Realized crude oil price ($/bbl)	1.00	2,793	0.08
Realized natural gas price ($/mcf)	0.10	755	0.02
U.S.$ to Canadian $ exchange rate	0.01	1,285	0.04

[1] This analysis uses current royalty rates, annualized estimated average production of 12,500 BOE per day and no changes in working capital
[2] Based on annualized basic weighted average shares outstanding of 33,143,435

Business Overview, Strategy and Key Performance Drivers

Bonterra's first quarter results are generally in line with expectations and reflect the impact of low commodity prices. In an effort to remain focused on shareholder value, the Company has maintained its guidance of reduced capital spending compared to prior years until commodity prices increase. Despite the significant reduction in commodity prices in the first quarter of 2016 compared to the fourth quarter of 2015, the Company has still been able to generate positive cash flow. Bonterra continued to further reduce drilling costs by 21 percent on a per well basis and production costs by 3 percent on a per BOE basis from the same period a year ago. These reduced costs were achieved through a combination of innovation, optimization and service cost reductions. In further response to the continued volatile pricing environment for commodities and to maintain cash flow sustainability, the Company reduced the monthly dividend from $0.15 per share to $0.10 per share commencing with the January 2016 dividend. As commodity prices improve, the Company has the flexibility to manage capital costs related to undrilled locations by accelerating development.

During the first quarter of 2016, Bonterra spent approximately $1,683,000 of its capital program to drill 2 gross (2 net) operated wells and tie-in of 6 gross (4.5 net) wells, which were drilled and completed in 2015. The two operated wells drilled in the first quarter of 2016 will be completed and tied-in early in the second quarter. With the ongoing volatility of WTI oil prices, the Company continues to review capital spending on a month by month basis.

The Company averaged 12,882 BOE per day for the first three months of 2016, which was above the 2016 annual guidance of 12,500 BOE per day previously provided. This first quarter production was negatively impacted by approximately 1,100 BOE per day as a result of deferred well workover maintenance and the shutting-in of uneconomic production due to low commodity prices. As commodity prices increase the Company will commence with its well workover maintenance program, which will increase production and cash flow with a marginal increase in production costs.

Bonterra's successful operations are dependent upon several factors, including but not limited to: commodity prices, the efficient management of capital spending and monthly dividends, its ability to maintain desired levels of production, control over its infrastructure, its efficiency in developing and operating properties, and its ability to control costs. The Company's key measures of performance with respect to these drivers include, but are not limited to: average production per day, average realized prices, and average operating costs per unit of production. Disclosure of these key performance measures can be found in the MD&A and/or previous interim or annual MD&A disclosures.

Drilling

	Three months ended					
		March 31, 2016		December 31, 2015		March 31, 2015
	Gross[1]	**Net[2]**	Gross[1]	Net[2]	Gross[1]	Net[2]
Crude oil horizontal-operated	**2**	**2.0**	3	1.5	7	5.4
Crude oil horizontal-non-operated	**-**	**-**	3	0.4	1	0.1
Total	**2**	**2.0**	6	1.9	8	5.5
Success rate		**100%**		100%		100%

(1) "Gross" wells means the number of wells in which Bonterra has a working interest.
(2) "Net" wells means the aggregate number of wells obtained by multiplying each gross well by Bonterra's percentage of working interest.

During the first quarter of 2016, the Company placed six gross (4.5 net) wells on production that were drilled and completed in the later part of 2015. In addition, the Company drilled two gross (2 net) wells, which will be placed on production in the first part of Q2 2016.

Production

	Three months ended		
	March 31, 2016	December 31, 2015	March 31, 2015
Crude oil (barrels per day)	**8,325**	8,424	8,128
NGLs (barrels per day)	**845**	710	791
Natural gas (MCF per day)	**22,274**	20,423	19,709
Average BOE per day	**12,882**	12,538	12,204

Production volumes during the first three months of 2016 increased by 678 BOE per day compared to the first three months of 2015. The increase in production is primarily due to the 20 additional wells drilled last year and an additional 1,470 BOE per day from certain oil and gas assets in the Pembina area of Alberta (the Pembina Assets) that were acquired in the second quarter of 2015. Production increases were partially offset by natural production declines and by 1,100 BOE per day of production that was shut-in primarily due to low commodity prices. As commodity prices improve, the Company will reactive the voluntarily shut-in production.

Quarter over quarter, production volumes increased by 344 BOE per day primarily due to the six new wells that came on production at various times in the first quarter of 2016.

Cash Netback

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

	Three months ended		
$ per BOE	**March 31, 2016**	December 31, 2015	March 31, 2015
Production volumes (BOE)	**1,172,277**	1,153,476	1,098,375
Gross production revenue	**$28.59**	$38.73	$38.68
Royalties	**(2.10)**	(2.55)	(3.18)
Production costs	**(10.89)**	(11.81)	(11.93)
Field netback	**$15.60**	$24.37	$23.57
General and administrative	**(1.58)**	(1.63)	(1.50)
Interest and other	**(3.32)**	(2.98)	(1.29)
Cash netback	**$10.70**	$19.76	$20.78

Cash netbacks have decreased in 2016 compared to 2015 primarily due to lower commodity prices and an increase in interest expense from funding the Pembina Assets with debt, which was partially offset by lower royalties and production costs. The decrease in quarter over quarter cash netbacks was primarily a result of lower crude oil and natural gas prices.

Oil and Gas Sales

	Three months ended		
	March 31, 2016	December 31, 2015	March 31, 2015
Revenue – oil and gas sales ($ 000s)	**33,510**	44,678	42,480
Average Realized Prices:			
Crude oil ($ per barrel)	**37.33**	49.50	48.70
NGLs ($ per barrel)	**14.72**	21.49	22.36
Natural gas ($ per MCF)	**2.02**	2.61	2.97
Average ($ per BOE)	**28.59**	38.73	38.68

Revenue from oil and gas sales decreased by $8,970,000 in 2016, or 21 percent, compared to 2015. This decrease was due to a 26 percent decrease in commodity prices on a per BOE basis. The quarter over quarter decrease in oil and gas sales of $11,168,000 was also a result of decreased commodity prices on a per BOE basis.

The Company's product split on a revenue basis for Q1 2016 is approximately 71 percent weighted towards crude oil and NGLs.

Royalties

	Three months ended		
($ 000s)	**March 31, 2016**	December 31, 2015	March 31, 2015
Crown royalties	**1,258**	1,901	2,044
Freehold, gross overriding and other royalties	**1,207**	1,039	1,444
Total royalties	**2,465**	2,940	3,488
Crown royalties - percentage of revenue	**3.8**	4.3	4.8
Freehold, gross overriding and other royalties - percentage of revenue	**3.6**	2.3	3.4
Royalties – percentage of revenue	**7.4**	6.6	8.2
Royalties $ per BOE	**2.10**	2.55	3.18

Royalties paid by the Company consist of crown royalties paid to the Provinces of Alberta, Saskatchewan and British Columbia and non-crown royalties. Total royalties on a per BOE basis decreased by $1.08 per BOE for 2016 compared to 2015, primarily due to lower commodity prices. On a percentage of revenue basis, crown royalties decreased due to a reduction in crown royalty rates resulting from decreased commodity prices compared to a year ago. In Q1 2016, Freehold royalty rates as a percentage of revenue would have been 2.3 percent due to the lower commodity prices, however as a result of freehold royalty reworks in the Keystone area, an additional $435,000 of freehold royalties were recorded relating to previous periods.

During the first quarter of 2016, the provincial government of Alberta announced the key highlights of a proposed Modernized Royalty Framework ("MRF") that will be effective on January 1, 2017. These highlights include providing royalty incentives for the efficient development of conventional crude oil, natural gas, and NGL resources, with no changes to the royalty structure of wells drilled prior to 2017 for a 10 year period from the royalty program's implementation date. In addition, royalty credits or holidays on conventional wells will be replaced by a revenue minus cost framework with a post-revenue minus cost royalty rate based on commodity prices, the reduction of royalty rates for mature wells, and a neutral internal rate of return for any given play compared to the current royalty framework. Details of the MRF calibration formulas have been released and more specific information will be provided by the provincial government in the coming months to help crude oil and natural gas producers better understand the economics of investing in Alberta. Until all components of the MRF have been released and calculated, the Company will not be able to determine if the MRF will have a material impact on Bonterra's results of operations on a go forward basis.

Production Costs

	Three months ended		
($ 000s except $ per BOE)	**March 31, 2016**	December 31, 2015	March 31, 2015
Production costs	**12,771**	13,622	13,100
$ per BOE	**10.89**	11.81	11.93

Production costs on a per BOE basis for the first three months of 2016 decreased 9 percent compared to the first three months of 2015. Production costs on a BOE basis have decreased as a result of field optimizations leading to reduced well maintenance and more efficient produced water handling and decreased chemical costs. Production costs also decreased as a result of a reduction in rates charged by service companies and lower freehold mineral taxes due to lower commodity prices.

Quarter over quarter, production costs on a per BOE basis decreased in 2016 due to the shutting-in of higher cost production and by delaying well maintenance costs on marginal wells, both decisions a result of reduced commodity prices. As commodity prices increase, the Company will commence with its well workover maintenance programs in order to maximize cash netbacks, which would increase production costs on a BOE basis.

Other Income

	Three months ended		
	March 31,	December 31,	March 31,
($ 000s)	**2016**	2015	2015
Investment income	**5**	41	96
Administrative income	**59**	15	29
	64	56	125

The market value of the investments held by the Company is $9,321,000 at March 31, 2016 (March 31, 2015 - $19,226,000). The carrying value decreased primarily due to the sale of investments for proceeds of $8,130,000 during 2015 and $568,000 during the first quarter of 2016. The disposition in the first quarter of 2016 resulted in a gain on sale of $472,000 (March 31, 2015 - $Nil) which was recorded as an equity transfer between accumulated other comprehensive income and retained earnings and not recorded in profit and loss.

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

General and Administration (G&A) Expense

	Three months ended		
	March 31,	December 31,	March 31,
($ 000s except $ per BOE)	**2016**	2015	2015
Employee compensation expense	**964**	1,211	712
Office and administration expense	**889**	666	932
Total G&A expense	**1,853**	1,877	1,644
$ per BOE	**1.58**	1.63	1.50

The $252,000 increase in employee compensation expense for the first quarter of 2016 compared to the same period in 2015 is related to a reduction of previously recorded 2014 accrued bonuses that were reversed in the first quarter of 2015 due to depressed oil and gas pricing. The Company has a bonus plan in which the bonus pool consists of a range between 2.5 percent to 3.5 percent of earnings before income taxes. The Company firmly believes that tying employee compensation (including the use of stock options) to the performance of the Company clearly aligns the interest of the employees with that of shareholders.

Office and administration expense for Q1 2016 decreased compared to Q1 2015 due to a decrease in bank charges, professional fees and a decrease in the allowance for doubtful accounts. The increase quarter over quarter relates to an increase in continuous disclosure costs, bank charges and less administration cost recoveries from more shut-in wells.

Finance Costs

($ 000s except $ per BOE)	March 31, 2016	Three months ended December 31, 2015	March 31, 2015
Interest on long-term debt	**3,768**	3,244	1,180
Other interest	**192**	252	363
Interest expense	**3,960**	3,496	1,543
$ per BOE	**3.38**	3.03	1.40
Unwinding of the discounted value of decommissioning liabilities	**580**	514	391
Total finance costs	**4,540**	4,010	1,934

Interest on long-term debt increased $2,588,000 in Q1 2016 compared to Q1 2015 as the Company increased the outstanding bank debt by $170,000,000 to finance the Pembina Asset acquisition in the second quarter of 2015. The Company's bank interest rate increased in the second half of 2015 due to a higher net debt to cash flow ratio. Interest rates are determined by net debt to cash flow ratio on a trailing quarterly basis.

Other interest relates to amounts paid to a related party (see related party transactions) and a $15,000,000 subordinated promissory note from a private investor.

A one percent increase (decrease) in the Canadian prime rate would decrease (increase) both annual net earnings and comprehensive income by approximately $2,607,000.

Share-Option Compensation

($ 000s)	March 31, 2016	Three months ended December 31, 2015	March 31, 2015
Share-option compensation	**1,249**	1,550	765

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

Share-option compensation increased by $484,000 from the same period a year ago due to less share-option compensation being amortized in 2015 as fewer options were outstanding during the first quarter of 2015. Quarter over quarter share-option compensation decreased due to 700,000 options issued in 2014 vesting on January 31, 2016.

Based on the outstanding options as of March 31, 2016, the Company has an unamortized expense of $4,644,000, of which $2,816,000 will be recorded for the remainder of 2016, $545,000 for 2017 and $16,000 thereafter. For more information about options issued and outstanding, refer to Note 9 of the March 31, 2016 condensed financial statements.

Depletion and Depreciation, Exploration and Evaluation and Goodwill

($ 000s)	March 31, 2016	Three months ended December 31, 2015	March 31, 2015
Depletion and depreciation	**25,145**	25,775	23,891
Exploration and evaluation	**-**	183	-

Provision for depletion and depreciation increased by $1,254,000 for 2016 compared to Q1 2015. The increase in depletion and depreciation is due to the $215,900,000 increase in property, plant and equipment (PPE) from Q1 2015 to the end of Q1 2016. The increase in PPE is due to the $173,111,000 increase from the Pembina Asset

acquisition in the second quarter of 2015, the 2015 capital program and an increase in the decommissioning liabilities in the first quarter of 2016. The increase in decommissioning liabilities was due to estimate updates for the various facilities and infrastructure in which the Company has ownership.

The exploration and evaluation expense relates to expired leases.

There were no impairment provisions recorded for the periods ended March 31, 2016 or 2015.

Taxes

The Company recorded a total tax recovery of $2,894,000 (2015- $282,000). The increase in the total tax recovery is due to an increase in loss before income taxes. Included in the total tax recovery is a current tax estimate of $3,279,000 for provincial income tax losses that were carried back to recover prior provincial income taxes paid and is included in accounts receivable.

For additional information regarding income taxes, see Note 8 of the March 31, 2016 condensed financial statements.

Net Loss

	Three months ended		
($ 000s except $ per share)	**March 31, 2016**	December 31, 2015	March 31, 2015
Net loss	**(11,555)**	(4,113)	(1,935)
$ per share – basic	**(0.36)**	(0.13)	(0.06)
$ per share – diluted	**(0.36)**	(0.13)	(0.06)

Net loss for the first three months of 2016 increased by $9,620,000 compared to the same period in 2015. The increase in net loss was a result of lower commodity prices, increased finance costs and depletion and depreciation, and was partially offset by a decrease in royalties, production costs and a current income tax recovery.

The quarter over quarter increase in net loss was mainly due to lower crude oil and natural gas prices.

Other Comprehensive Income (Loss)

Other comprehensive income for 2016 consists of an unrealized loss before tax on investments (including investment in a related party) of $353,000 relating to an increase in the investments' fair value (March 31, 2015 – unrealized loss of $960,000). Realized gains decrease accumulated other comprehensive income as these gains are transferred to retained earnings. Other comprehensive income varies from net earnings by unrealized changes in the fair value of Bonterra's holdings of investments including the investment in a related party, net of tax.

Cash Flow from Operations

	Three months ended		
($ 000s except $ per share)	**March 31, 2016**	December 31, 2015	March 31, 2015
Cash flow from operations	**11,146**	27,808	26,079
$ per share – basic	**0.34**	0.84	0.81
$ per share – diluted	**0.34**	0.84	0.81

In Q1 2016, cash flow from operations decreased by $14,933,000 compared to Q1 2015 and $16,662,000 compared to Q4 2015. This was primarily due to a decrease in revenue from oil and gas sales, which was partially offset by a decrease in royalties and production costs. Excluding working capital adjustments of $3,960,000 that would have increased cash flow to $15,106,000, the Company would have generated a surplus of cash flow in excess of capital expenditures and dividend payments of $12,835,000 for the quarter.

Related Party Transactions

Bonterra holds 1,034,523 (December 31, 2015 – 1,034,523) common shares in Pine Cliff Energy Ltd. ("Pine Cliff") which represents less than one percent ownership in Pine Cliff's outstanding common shares. Pine Cliff's common shares had a fair market value as of March 31, 2016 of $755,000 (December 31, 2015 of $962,000). Pine Cliff paid a management fee to the Company of $15,000 (March 31, 2015 - $15,000) plus the reimbursement of certain administrative expenses. Services provided by the Company include executive services, oil and gas administration and office administration. All services performed are charged at estimated fair value. Effective April 1, 2016, the management fee agreement was terminated. As at March 31, 2016, the Company had an account receivable from Pine Cliff of $82,000 (December 31, 2015 – $211,000).

As at March 31, 2016, the Company's CEO, Chairman of the Board and major shareholder loaned the Company $12,000,000 (December 31, 2015 - $12,000,000). The loan bears interest at Canadian chartered bank prime less 5/8th of a percent and has no set repayment terms but is payable on demand. Security under the debenture is over all of the Company's assets and is subordinated to any and all claims in favour of the syndicate of senior lenders providing credit facilities to the Company. The loan can only be repaid should the Company have sufficient available borrowing limits under the Company's credit facility. Interest paid on this loan for the first three months of 2016 was $ 62,000 (March 31, 2015 - $67,000). This loan results in a substantial benefit to Bonterra as the interest paid to the CEO by Bonterra is lower than bank interest.

Liquidity and Capital Resources

Net Debt to Cash Flow from Operations

Bonterra continues to focus on monitoring and managing its cash flow, capital expenditures and dividend payments. The Company's net debt to a twelve month trailing cash flow ratio as of March 31, 2016 was a ratio of 3.9 to 1 times. The increase in net debt to cash flow is mainly due to the Pembina Asset acquisition on April 15, 2015 and low commodity prices realized in the later part 2015 and 2016. To manage its bank debt Bonterra significantly reduced planned capital expenditures during this low commodity price environment and reduced the monthly dividend payments by $0.05 to $0.10 per common share starting with the January 2016 dividend. With the current oil commodity price environment the Company will be assessing its monthly dividend and capital expenditures for 2016 on a month to month basis.

Working Capital Deficiency and Net Debt

($ 000s)	**March 31, 2016**	December 31, 2015	March 31, 2015
Working capital deficiency	**13,115**	29,807	37,633
Long-term bank debt	**345,118**	332,471	207,217
Net debt	**358,233**	362,278	244,850

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

Net debt is a combination of long-term bank debt and working capital. Net debt increased compared to Q1 2015. This was a result of decreased cash flow from lower field netbacks and the acquisition of the Pembina Assets, and was partially offset by decreased capital spending and by reducing the monthly dividend from $0.30 per share to $0.15 per share that commenced with the February 2015 dividend. Beginning with the January 2016 dividend payment, the Company further reduced the monthly dividend to $0.10 per share due to further declines in commodity prices. On January 22, 2016 the Company repaid $10,000,000 of its subordinated promissory note, which decreased working capital deficiency but increased long-term bank debt.

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

non-core assets and investments. Included in the working capital deficiency at March 31, 2016 is $27 million of debt relating to the subordinated promissory note and the amount due to related party.

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

Capital Expenditures

During the three months ended March 31, 2016, the Company incurred capital expenditures of $1,683,000 (March 31, 2015 - $21,760,000). The costs relate to the drilling of 2 gross (2 net) Cardium operated horizontal wells and upgrading facilities and gathering systems. The Company incurred tie-in costs related to 6 gross (4.5 net) Cardium operated wells that were drilled and completed in 2015.

Long-term Debt

Long-term debt represents the outstanding draws from the Company's credit facilities as described in the notes to the Company's condensed financial statements. As of March 31, 2016, the Company has bank facilities consisting of a $375,000,000 (December 31, 2015 - $375,000,000) syndicated revolving credit facility and a $50,000,000 (December 31, 2015 - $50,000,000) non-syndicated revolving credit facility. Amounts drawn under these credit facilities at March 31, 2016 totaled $345,118,000 (December 31, 2015 - $332,471,000). The interest rates on the outstanding debt as of March 31, 2016 were 4.95 percent and 4.42 percent on the Company's Canadian prime rate loan and Banker's Acceptances, respectively. The loan is revolving to April 29, 2016 with a maturity date of April 30, 2017 and is subject to annual review. The credit facilities have no fixed terms of repayment. Effective April 27, 2016, the lending syndicate extended the renewal period from April 30, 2016 to May 31, 2016 and confirmed all other terms of the credit agreement shall remain in force and effect, without amendment.

Advances drawn under the credit facilities are secured by a fixed and floating charge debenture over the assets of the Company. In the event the credit facilities are not extended or renewed, amounts drawn under the facility would be due and payable on the maturity date. The size of the committed credit facilities is based primarily on the value of the Company's producing petroleum and natural gas assets and related tangible assets as determined by the lenders. For more information see Note 6 of the March 31, 2016 condensed financial statements.

Shareholders' Equity

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

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

Issued and fully paid – common shares	**Number**	**Amount ($ 000s)**
Balance, March 31, 2016 and December 31, 2015	**33,143,435**	**760,020**

The Company provides a stock option plan for its directors, officers, employees and consultants. Under the plan, the Company may grant options for up to 3,314,344 (December 31, 2015 – 3,314,344) common shares. The exercise price of each option granted will not be lower than the market price of the common shares on the date of grant and the option's maximum term is five years. For additional information regarding options outstanding, see Note 9 of the March 31, 2016 condensed financial statements.

Dividend Policy

For the three months ended March 31, 2016, Bonterra paid total dividends of $9,943,000 ($0.30 per share) compared to $19,302,000 ($0.60 per share) in 2015. Bonterra's dividend policy is regularly monitored and is dependent upon production, commodity prices, cash flow from operations, debt levels and capital expenditures.

With its large inventory of undrilled locations, Bonterra continues to be well positioned to provide its shareholders a combination of sustainable growth and meaningful dividend income.

Bonterra's dividends to its shareholders are funded by cash flow from operating activities with the remaining cash flow directed towards capital spending and, where applicable, the repayment of debt. To the extent that the excess cash flow from operations after dividends is not sufficient to cover capital spending, the shortfall is funded by funds from the exercising of employee stock options, the sale of investments and by drawdowns from Bonterra's credit facilities. Bonterra intends to provide dividends to shareholders that are sustainable to the Company considering its liquidity and its long-term operational strategy. In addition, since the level of dividends is highly dependent upon cash flow generated from operations, which fluctuates significantly in relation to changes in financial and operational performance, commodity prices, interest and exchange rates and many other factors, future dividends cannot be assured. Bonterra's payout ratio based on cash flow from operations was 89 percent for the three months ended March 31, 2016 (74 percent for the three months ended March 31, 2015).

Quarterly Financial Information

	2016	2015			
For the periods ended ($ 000s except $ per share)	**Q1**	Q4	Q3	Q2	Q1
Revenue – oil and gas sales	**33,510**	44,678	52,160	57,921	42,480
Cash flow from operations	**11,146**	27,808	36,024	17,960	26,079
Net earnings (loss)	**(11,555)**	(4,113)	(321)	(2,711)	(1,935)
Per share – basic	**(0.35)**	(0.13)	(0.01)	(0.08)	(0.06)
Per share – diluted	**(0.35)**	(0.13)	(0.01)	(0.08)	(0.06)

	2014			
For the periods ended ($ 000s except $ per share)	Q4	Q3	Q2	Q1
Revenue – oil and gas sales	68,940	88,959	99,274	82,521
Cash flow from operations	50,465	65,705	57,089	49,094
Net earnings (loss)	(32,877)	20,983	27,614	23,041
Per share – basic	(1.04)	0.65	0.87	0.73
Per share – diluted	(1.03)	0.65	0.86	0.73

The fluctuations in the Company's revenue and net earnings from quarter to quarter are caused by variations in production volumes, realized commodity pricing and the related impact on royalties and production costs. In 2016 and 2015, net earnings and cash flow are lower than prior periods due to a significant decrease in commodity prices, other than Q4 2014 net earnings which were lower due to the Company's tax agreement with the CRA.

Critical Accounting Estimates

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

Forward-Looking Information

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

All such forward-looking information is based on certain assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances. The risks, uncertainties, and assumptions are difficult to predict and may affect operations, and may include, without limitation: foreign exchange fluctuations; equipment and labour shortages and inflationary costs; general economic conditions; industry conditions; changes in applicable environmental, taxation and other laws and regulations as well as how such laws and regulations are interpreted and enforced; the ability of oil and natural gas companies to raise capital; the effect of weather conditions on operations and facilities; the existence of operating risks; volatility of oil and natural gas prices; oil and gas product supply and demand; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; increased competition; stock market volatility; opportunities available to or pursued by us; and other factors, many of which are beyond our control. The foregoing factors are not exhaustive.

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

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

Internal Controls Over Financial Reporting

The Company is required to comply with National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings." The certification of interim filings for the interim period ended March 31, 2016 requires that Bonterra disclose in the interim MD&A any changes in the Company's internal control over financial reporting that occurred during the period that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Bonterra confirms that no such changes were made to its internal controls over financial reporting during the three months ended March 31, 2016.

Future Accounting Pronouncements

In May 2014, the International Accounting Standards Board (IASB) issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. This standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. The Company has not yet assessed the impact, if any, that the new standard will have on its financial statements or whether to early adopt this new requirement.

In January 2016, the IASB issued IFRS 16 "Leases," which replaces IAS 17 "Leases." For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 "Revenue from Contracts with Customers." The standard is required to be adopted either retrospectively or using a modified retrospective approach. The Company has not yet assessed the impact, if any, that the new amended standard will have on its financial statements or whether to early adopt this new requirement.

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

Management's Responsibility for Financial Statements

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

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

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

CONDENSED STATEMENT OF FINANCIAL POSITION

As at (unaudited) ($ 000s)	Note	**March 31, 2016**	December 31, 2015
Assets			
Current			
Accounts receivable		**17,120**	15,433
Crude oil inventory		**835**	868
Prepaid expenses		**2,250**	2,798
Investments		**8,566**	8,576
		28,771	27,675
Investment in related party		**755**	962
Exploration and evaluation assets		**7,925**	7,925
Property, plant and equipment	3	**1,035,046**	1,045,387
Investment tax credit receivable	8	**8,834**	8,834
Goodwill		**92,810**	92,810
		1,174,141	1,183,593
Liabilities			
Current			
Accounts payable and accrued liabilities		**14,886**	20,479
Due to related party	4	**12,000**	12,000
Subordinated promissory note	5	**15,000**	25,000
		41,886	57,479
Bank debt	6	**345,118**	332,471
Decommissioning liabilities	7	**84,529**	71,523
Deferred tax liability	8	**126,683**	126,315
		598,216	587,788
Subsequent events	11		
Shareholders' equity			
Share capital	9	**760,020**	760,020
Contributed surplus		**17,014**	15,765
Accumulated other comprehensive income		**468**	571
Retained earnings (deficit)		**(201,577)**	(180,551)
		575,925	595,805
		1,174,141	1,183,593

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF COMPREHENSIVE LOSS

For the three months ended March 31 (unaudited) ($ 000s, except $ per share)	Note	2016	2015
Revenue			
Oil and gas sales, net of royalties	10	**31,045**	38,992
Other income		**64**	125
		31,109	39,117
Expenses			
Production		**12,771**	13,100
Office and administration		**889**	932
Employee compensation		**964**	712
Finance costs		**4,540**	1,934
Share-option compensation	9	**1,249**	765
Depletion and depreciation	3	**25,145**	23,891
		45,558	41,334
Loss before income taxes		**(14,449)**	(2,217)
Taxes			
Current income tax (recovery)	8	**(3,279)**	740
Deferred income tax (recovery)	8	**385**	(1,022)
		(2,894)	(282)
Net loss for the period		**(11,555)**	(1,935)
Other comprehensive income (loss)			
Unrealized gain (loss) on investments		**353**	(960)
Deferred taxes on unrealized (gain) loss on investments		**(48)**	120
Other comprehensive income (loss) for the period		**305**	(840)
Total comprehensive loss for the period		**(11,250)**	(2,775)
Net loss per share - basic	9	**(0.35)**	(0.06)
Net loss per share – diluted	9	**(0.35)**	(0.06)
Comprehensive loss per share - basic	9	**(0.34)**	(0.09)
Comprehensive loss per share – diluted	9	**(0.34)**	(0.09)

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF CASH FLOW

For the three months ended March 31 (unaudited)

($ 000s)	Note	2016	2015
Operating activities			
Net loss		**(11,555)**	(1,935)
Items not affecting cash			
Deferred income taxes		**385**	(1,022)
Share-option compensation		**1,249**	765
Depletion and depreciation		**25,145**	23,891
Unwinding of the discount on decommissioning liabilities		**580**	391
Investment income		**(5)**	(96)
Interest expense		**3,960**	1,544
Change in non-cash working capital accounts:			
Accounts receivable		**(3,043)**	2,761
Crude oil inventory		**39**	388
Prepaid expenses		**548**	459
Investment tax credit receivable		**-**	444
Accounts payable and accrued liabilities		**(1,497)**	55
Decommissioning expenditures		**(700)**	(22)
Interest paid		**(3,960)**	(1,544)
Cash provided by operating activities		**11,146**	26,079
Financing activities			
Increase (decrease) in bank debt		**12,647**	52,494
Subordinated promissory note		**(10,000)**	-
Dividends		**(9,943)**	(19,302)
Cash provided by (used in) financing activities		**(7,296)**	33,192
Investing activities			
Investment income received		**5**	96
Exploration and evaluation expenditures		**-**	(432)
Property, plant and equipment expenditures	3	**(1,683)**	(21,328)
Purchase of investments		**-**	(12,221)
Proceeds on sale of investments		**568**	-
Acquisition		**-**	(17,200)
Change in non-cash working capital accounts:			
Accounts payable and accrued liabilities		**(4,096)**	(6,945)
Accounts receivable		**1,356**	(1,241)
Cash used in investing activities		**(3,850)**	(59,271)
Net change in cash in the period		**-**	-
Cash, beginning of period		**-**	-
Cash, end of period		**-**	-

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF CHANGES IN EQUITY

For the periods ended (unaudited)

($ 000s, except number of shares outstanding)

	Number of shares outstanding (Note 9)	Share capital (Note 9)	Contributed surplus [1]	Accumulated other comprehensive income [2]	Retained earnings (deficit)	Total shareholders' equity
January 1, 2015	32,169,623	728,934	11,495	3,824	(109,055)	635,198
Share-option compensation			765			765
Comprehensive loss				(840)	(1,935)	(2,775)
Dividends					(19,302)	(19,302)
March 31, 2015	32,169,623	728,934	12,260	2,984	(130,292)	613,886
Share-option compensation			3,505			3,505
Share issuance, private placement	973,812	31,162				31,162
Share issue costs, net of tax		(76)				(76)
Comprehensive loss				(1,383)	(7,145)	(8,528)
Transfer of realized gain on investments				(1,191)	1,191	-
Deferred taxes on realized gain on investments				161		161
Dividends					(44,305)	(44,305)
December 31, 2015	33,143,435	760,020	15,765	571	(180,551)	595,805
Share-option compensation			1,249			1,249
Comprehensive income (loss)				305	(11,555)	(11,250)
Transfer of realized gain on investments				(472)	472	-
Deferred taxes on realized gain on investments				64		64
Dividends					(9,943)	(9,943)
March 31, 2016	33,143,435	760,020	17,014	468	(201,577)	575,925

[1] Contributed surplus includes all amounts related to share-based payments

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

See accompanying notes to these condensed financial statements.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

As at March 31, 2016 and December 31, 2015 and for the three months ended March 31, 2016, and March 31, 2015 (unaudited).

1. NATURE OF BUSINESS AND SEGMENT INFORMATION

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

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

The financial statements were authorized for issue by the Company's Board of Directors on May 11, 2016.

2. BASIS OF PREPARATION

a) Statement of Compliance

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

The accounting policies and method of computation followed in the preparation of the condensed financial statements are the same as those followed in the preparation of Bonterra's 2015 audited annual financial statements. These condensed financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the 2015 audited annual financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

b) Future Accounting Pronouncements

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. This standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. The Company has not yet assessed the impact, if any, that the new amended standard will have on its financial statements or whether to early adopt this new requirement.

In January 2016, the IASB issued IFRS 16 "Leases," which replaces IAS 17 "Leases." For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 "Revenue from Contracts with Customers." The standard is required to be adopted either retrospectively or using a modified retrospective approach. The Company has not yet assessed the impact, if any, that the new amended standard will have on its financial statements or whether to early adopt this new requirement.

3. PROPERTY, PLANT AND EQUIPMENT

Cost ($ 000s)	Oil and gas properties	Production facilities	Furniture, fixtures & other equipment	Total property, plant & equipment
Balance at December 31, 2015	**1,222,683**	**302,781**	**2,053**	**1,527,517**
Additions	667	1,005	11	1,683
Adjustment to decomissioning liabilities	13,126	-	-	13,126
Balance at March 31, 2016	**1,236,476**	**303,786**	**2,064**	**1,542,326**

Accumulated Depletion and Depreciation ($ 000s)	Oil and gas properties	Production facilities	Furniture, fixtures & other equipment	Total property, plant & equipment
Balance at December 31, 2015	**(390,485)**	**(90,116)**	**(1,529)**	**(482,130)**
Depletion and depreciation	(21,441)	(3,683)	(21)	(25,145)
Disposal and other	(5)	-	-	(5)
Balance at March 31, 2016	**(411,931)**	**(93,799)**	**(1,550)**	**(507,280)**

Carrying amounts as at: **($ 000s)**				
December 31, 2015	832,198	212,665	524	1,045,387
March 31, 2016	**824,545**	**209,987**	**514**	**1,035,046**

(1) Adjustment to decommissioning liabilities is due to a decrease in the risk free rate and a change in estimate on decommissioning costs.

The impairment of property, plant and equipment assets and any subsequent reversal of such impairment losses are recognized in the statement of comprehensive income. There were no impairment losses or reversals recorded in the statement of comprehensive income for the three months ended March 31, 2016 and 2015.

4. TRANSACTIONS WITH RELATED PARTIES

As at March 31, 2016, the Company's CEO, Chairman of the Board and major shareholder has a loan with the Company of $12,000,000 (December 31, 2015 - $12,000,000). The loan bears interest at Canadian chartered bank prime less 5/8th of a percent and has no set repayment terms but is payable on demand. Security under the debenture is over all of the Company's assets and is subordinated to any and all claims in favour of the syndicate of senior lenders providing credit facilities to the Company. The loan can only be repaid should the Company have sufficient available borrowing limits under the Company's credit facility. Interest paid on this loan during the first three months of 2016 was $62,000 (March 31, 2015 - $67,000).

The Company received a management fee of $15,000 plus the reimbursement of certain administrative expenses for the three months ended March 31, 2016 (March 31, 2015 - $15,000) for management services and office administration from Pine Cliff Energy Ltd. ("Pine Cliff"). This fee has been included in other income. Effective April 1, 2016, the management fee agreement was terminated. As at March 31, 2016, the Company had an account receivable from Pine Cliff of $82,000 (December 31, 2015 - $293,000).

5. SUBORDINATED PROMISSORY NOTE

As at March 31, 2016, Bonterra had $15,000,000 (December 31, 2015 - $25,000,000) owed on a subordinated note to a private investor. The terms of the subordinated promissory note are that it bears interest at three percent and is repayable after thirty days' written notice by either party. Security consists of a floating demand debenture of $15,000,000 over all of the Company's assets and is subordinated to any and all claims in favor of the syndicate of senior lenders providing credit facilities to the Company. Interest paid on the subordinated promissory note during

the first three months was $130,000 (March 31, 2015 - $296,000). On January 22, 2016, the Company repaid $10,000,000.

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

6. BANK DEBT

As at March 31, 2016, the Company has bank facilities consisting of a $375,000,000 (December 31, 2015 - $375,000,000) syndicated revolving credit facility and a $50,000,000 (December 31, 2015 - $50,000,000) non-syndicated revolving credit facility, for total credit facilities of $425,000,000. Amounts drawn under the credit facilities at March 31, 2016 were $345,118,000 (December 31, 2015 - $332,471,000). Amounts borrowed under the credit facilities bear interest at a floating rate based on the applicable Canadian prime rate or Banker's Acceptance rate, plus between 0.75 percent and 3.50 percent, depending on the type of borrowing and the Company's consolidated total funded debt to consolidated cash flow provided by operating activities. The terms of the revolving credit facilities provided that the loan is revolving to April 29, 2016, with a maturity date of April 30, 2017 and is subject to annual review. The credit facilities have no fixed terms of repayment.

The available lending limits of the credit facilities are reviewed semi-annually on or before April 30 and October 31 each year based on the lender's interpretation of the Company's reserves, future commodity prices and costs. Effective April 27, 2016, the lending syndicate extended the renewal period from April 30, 2016 to May 31, 2016 and confirmed all other terms of the credit agreement shall remain in force and effect, without amendment.

The amount available for borrowing under the credit facilities is reduced by outstanding letters of credit. Letters of credit totaling $2,150,000 were issued as at March 31, 2016 (December 31, 2015 - $1,950,000). Security for credit facilities consists of various and floating demand debentures totaling $750,000,000 (December 31, 2015 - $750,000,000) over all of the Company's assets and a general security agreement with first ranking over all personal and real property.

The following is a list of the material covenants on the credit facilities:

- The Company cannot exceed $425,000,000 in consolidated debt (includes working capital but excludes amounts due to related parties and the subordinated promissory note). As at March 31, 2016 consolidated debt is $331,233,000.
- Dividends paid in the current quarter shall not exceed 80 percent of the available cash flow for the preceding four fiscal quarters divided by four, which is calculated as 37 percent for the current quarter.

Available cash flow is defined to be cash provided by operating activities excluding the change in non-cash working capital and decommissioning liabilities settled and including investment income received and all net proceeds of dispositions included in cash used in investing activities. At March 31, 2016, the Company is in compliance with all covenants.

7. DECOMMISSIONING LIABILITIES

At March 31, 2016, the estimated total undiscounted amount required to settle the decommissioning liabilities was $263,578,000 (December 31, 2015- $232,413,000). The provision has been calculated assuming a 1.5 percent inflation rate (December 31, 2015 – 1.5 percent inflation rate). These obligations will be settled at the end of the useful lives of the underlying assets, which extend up to 50 years into the future. This amount has been discounted using a risk-free interest rate of 2.8 percent (December 31, 2015 – 2.9 percent).

($ 000s)	March 31, 2016
Decommissioning liabilities, December 31, 2015	**71,523**
Adjustment to decommissioning liabilities[1]	**13,126**
Liabilities settled during the year	**(700)**
Unwinding of the discount on decommissioning liabilities	**580**
Decommissioning liabilities, end of period	**84,529**

[1] Adjustment to decommissioning liabilities is due to a change in the risk free rate and estimated decommissioning costs.

8. INCOME TAXES

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

($ 000s)	Rate of Utilization (%)	Amount
Undepreciated capital costs	20-100	106,786
Eligible capital expenditures	7	2,372
Share issue costs	20	2,307
Canadian oil and gas property expenditures	10	174,683
Canadian development expenditures	30	184,002
Canadian exploration expenditures	100	8,063
Federal income tax losses carried forward [1]	100	32,981
		511,194

[1] Federal income tax losses carried forward expire in the following years; 2035 - $18,451,000; 2036 - $14,530,000.

The Company has $8,834,000 (December 31, 2015 - $8,834,000) of investment tax credits that expire in the following years; 2021 - $1,824,000; 2022 - $1,735,000; 2023 - $1,097,000; 2024 - $1,241,000; 2025 - $1,323,000; 2026 - $1,105,000; 2027 - $410,000; and 2035 - $99,000.

The Company has $67,219,000 (December 31, 2015 - $67,691,000) of capital losses carried forward which can only be claimed against taxable capital gains.

The $3,279,000 current tax recovery for 2016 is comprised of provincial income tax losses that were carried back to recover prior provincial income taxes paid and is included in accounts receivable.

9. SHAREHOLDERS’ EQUITY

Authorized

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

Issued and fully paid – common shares	**Number**	**Amount ($ 000s)**
Balance, March 31, 2016 and December 31, 2015	**33,143,435**	**760,020**

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

The weighted average common shares used to calculate basic and diluted net earnings per share for the year ended December 31 is as follows:

	2016	2015
Basic shares outstanding	**33,143,435**	32,169,623
Dilutive effect of share options [(1)]	-	-
Diluted shares outstanding	**33,143,435**	32,169,623

(1) The Company did not include 2,814,500 share options for the three months ended March 31, 2016 (March 31, 2015 – 3,022,000) in the dilutive effect of share options calculation as these share options were anti-dilutive.

For the three months ended March 31, 2016, the Company declared and paid dividends of $9,943,000 ($0.30 per share) (March 31, 2015 - $19,302,000 ($0.60 per share)).

The Company provides an equity settled option plan for its directors, officers, employees and consultants. Under the plan, the Company may grant options for up to 3,314,344 (December 31, 2015 – 3,314,344) common shares. The exercise price of each option granted cannot be lower than the market price of the common shares on the date of grant and the option's maximum term is five years.

A summary of the status of the Company's stock option plan as of March 31, 2016, and changes during the period ended on those dates is presented below:

	Number of options	**Weighted average exercise price**
At December 31, 2015	2,955,500	$40.28
Options granted	33,000	17.16
Options forfeited	(85,000)	48.49
Options expired	(89,000)	53.70
Balance, March 31, 2016	2,814,500	$39.33

The following table summarizes information about options outstanding at March 31, 2016:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number outstanding at March 31, 2016	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at March 31, 2016	Weighted-average exercise price
$ 17.00 – $ 30.00	840,000	1.6 years	$20.33	-	$ -
30.01 – 50.00	1,009,500	1.4 years	35.61	40,000	46.05
50.01 – 65.00	965,000	0.6 years	59.78	627,000	60.44
$ 17.00 – $ 65.00	2,814,500	1.2 years	$39.33	667,000	$59.57

The Company records compensation expense over the vesting period, which ranges between one to three years, based on the fair value of options granted to employees, directors and consultants. In 2016, the Company granted 33,000 stock options with an estimated fair value of $105,000 or $3.18 per option using the Black-Scholes option pricing model with the following key assumptions:

	March 31, 2016
Weighted-average risk free interest rate (%)[(1)]	**0.46**
Expected life (years)	**2.0**
Weighted-average volatility (%) [(2)]	**49.37**
Forfeiture rate (%)	**8.83**
Weighted average dividend yield (%)	**6.99**

(1) Risk-free interest rate is based on the weighted average Government of Canada benchmark bond yields for one, two, and three year terms to match corresponding vesting periods.

(2) The expected volatility is measured as the standard deviation of expected share price returns based on statistical analysis of historical weekly share prices for a representative period.

10. OIL AND GAS SALES, NET OF ROYALTIES

($ 000s)	**March 31, 2016**	March 31, 2015
Oil and gas sales	**33,510**	42,480
Less:		
Crown royalties	**(1,258)**	(2,044)
Freehold, gross overriding royalties and other	**(1,207)**	(1,444)
Oil and gas sales, net of royalties	**31,045**	38,992

11. SUBSEQUENT EVENTS

i) Dividends

Subsequent to March 31, 2016, the Company declared the following dividends:

Date declared	Record date	$ per share	Date payable
April 1, 2016	April 15, 2016	0.10	April 29, 2016
May 2, 2016	May 16, 2016	0.10	May 31, 2016

Corporate Information

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

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

Registrar and Transfer Agent
Computershare Trust Company of Canada, Calgary, Alberta

Auditors
Deloitte LLP, Calgary, Alberta

Solicitors
Borden Ladner Gervais LLP, Calgary, Alberta

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

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