For the six Months ended June 30, 2016

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BONTERRA ENERGY REPORTS SECOND QUARTER AND SIX MONTHS 2016 FINANCIAL AND OPERATING RESULTS

HIGHLIGHTS

		Three months ended		Six months ended	
As at and for the periods ended		**June 30,**	June 30,	**June 30,**	June 30,
($ 000s except for $ per share and $ per BOE)		**2016**	2015	**2016**	2015
FINANCIAL					
Revenue - realized oil and gas sales [1]		**41,150**	57,921	**74,660**	100,401
Funds flow [1][2]		**29,765**	43,058	**46,137**	65,148
Per share - basic and diluted		**0.90**	1.34	**1.39**	2.03
Dividend payout ratio		**33%**	34%	**43%**	52%
Cash flow from operations		**13,392**	17,960	**24,538**	44,039
Per share - basic and diluted		**0.40**	0.56	**0.74**	1.37
Dividend payout ratio		**75%**	81%	**81%**	77%
Cash dividends per share		**0.30**	0.45	**0.60**	1.05
Net loss		**(5,582)**	(2,711)	**(17,137)**	(4,646)
Per share - basic and diluted		**(0.17)**	(0.08)	**(0.52)**	(0.14)
Corporate netback per BOE [3][4]		**18.76**	30.22	**14.62**	25.63
Capital expenditures, net of dispositions		**9,420**	13,952	**11,103**	35,712
Acquisition[5]		**-**	153,230	**-**	170,430
Total assets				**1,169,782**	1,225,291
Working capital deficiency				**18,429**	27,558
Long-term debt				**336,923**	361,430
Shareholders' equity				**564,075**	599,911
OPERATIONS					
Oil	-barrels per day	**7,780**	8,823	**8,052**	8,478
	-average price ($ per barrel)	**51.64**	64.27	**44.24**	56.85
NGLs	-barrels per day	**877**	677	**861**	734
	-average price ($ per barrel)	**20.79**	21.35	**17.81**	21.89
Natural gas	- MCF per day	**21,771**	19,452	**22,022**	19,580
	- average price ($ per MCF)	**1.48**	2.83	**1.75**	2.90
Total barrels of oil equivalent per day (BOE) [3]		**12,285**	12,743	**12,584**	12,475

(1) Three and six month figures for 2015 include the results of a purchase (the acquisition) of primarily Pembina Cardium oil and gas assets (Pembina Assets) for the period of April 15, 2015 to June 30, 2015. For the six months ended June 30, 2015 production includes 76 days for Pembina Assets and 182 days for Bonterra

(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.

(4) Corporate cash netback is not a recognized measure under IFRS. For these purposes, the Company defines corporate 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.

(5) For 2015, includes the Acquisition that closed April 15, 2015 for $170,430,000 (a deposit of $17,200,000 was paid in Q1 2015)

Report to Shareholders

Bonterra Energy Corp. (“Bonterra” or the “Company”) is pleased to report its financial and operational results for the three and six months ended June 30, 2016. Although the industry experienced strengthening oil prices through the second quarter of 2016, into the third quarter weakness has returned and prices again remain volatile and difficult to predict.

Second Quarter and Six Month Highlights:

- Production volumes for Q2 2016 averaged 12,285 barrels of oil equivalent (BOE) per day. The second quarter production is typically lower for most companies due to spring break-up and related road bans. Also adding to Bonterra’s lower Q2 production were pipeline restrictions, reduced capital expenditures and voluntary shut-ins of uneconomic production caused by low prices. Subsequent to quarter end due to timing of wells being tied in, reactivation of shut-in production and removal of some pipeline restrictions, production is presently exceeding 13,000 BOE per day. Production for the first six months of 2016 of 12,584 per BOE was relatively flat with the comparable 2015 period.
- The Company’s natural production decline of less than 20 percent continues to be one of the lowest of conventional producers and enabled Bonterra to keep production flat by spending only approximately $11 million of its budgeted $40 million capital expenditure budget for 2016.
- Bonterra continued to focus on cost control with cash costs per BOE for Q2 2016, including royalties, production, general and administration, and bank interest costs averaging $18.10 per BOE, which is approximately equivalent to USD $14 WTI. With stronger realized prices compared to the previous quarter, Bonterra's field netback was 55 percent higher at $24.24 per BOE, and its corporate cash netback at $18.76 per BOE was 75 percent higher than Q1 2016. The six month corporate cash netback of $14.62 per BOE for 2016 was a substantial reduction from the $25.63 per BOE received for the comparable period in 2015 mainly due to lower commodity prices.
- Funds flow for the quarter totaled $29.8 million ($0.90 per diluted share) an increase of 82 percent compared to Q1 2016. Bonterra maintained its sustainability model with dividends paid of $9.9 million and capital expenditures of $9.4 million, being well below the level of funds flow generated for Q2 2016, which assisted in supporting debt repayment. For the 2016 six month period funds flow totaled $46.1 million and the capital expenditures and dividends paid totaled $31 million.
- Capital expenditures for 2016 continue to be forecast at $40 million, the majority of which will be spent in the last half of 2016. Capital spending may be increased or decreased subject to commodity prices and the Canadian/US dollar exchange rate.
- Bonterra's borrowing base was adjusted to $380 million during the quarter, a reduction of 10.6 percent from the previous $425 million. Bank debt was reduced to $337 million at the end of the second quarter of 2016 compared to $345 million at the end of the first quarter of 2016. The Company will continue to maintain its focus on further debt reduction. Net debt, which includes working capital deficiency, totaled $355 million at June 30, 2016 compared to $389 million at June 30, 2015.

Outlook

Although commodity prices have declined subsequent to Q2, Bonterra remains well positioned to continue managing its capital expenditures and controlling costs to optimize netbacks and funds flow. As demonstrated in previous quarters, the Company continuously monitors prices and will respond to positive or negative changes to ensure funds flow exceeds capital spending and dividend payments, with any excess funds continuing to be directed to debt reduction.

With a very low production decline rate, the Company's maintenance capital requirements to hold production flat or grow at a modest rate are manageable, and Bonterra is confident in its ability to meet the full year annual production target of 12,500 BOE per day. Given the continued price uncertainty, Bonterra will focus on controlling costs while developing its high-quality Cardium asset base. Additional clarity regarding the Government of Alberta's Modernized Royalty Framework ("MRF") were released during the second quarter, and based on currently expected commodity price ranges, the Company does not anticipate the MRF will have a material impact on the results of operations on a go forward basis.

Bonterra remains strong and well positioned for long-term success for shareholders, whether their focus is on yield or growth. We appreciate the continued support of our shareholders through the present industry challenges.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following report dated August 10, 2016 is a review of the operations and current financial position for the six months ended June 30, 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 ended ($ 000s except $ per share)	**Q2**	Q1	Q4	Q3	Q2	Q1
Financial						
Revenue - oil and gas sales	**41,150**	33,510	44,678	52,160	57,921	42,480
Cash flow from operations	**13,392**	11,146	27,808	36,024	17,960	26,079
Per share - basic	**0.40**	0.34	0.84	1.09	0.56	0.81
Per share - diluted	**0.40**	0.34	0.84	1.09	0.56	0.81
Payout ratio	**75%**	89%	54%	41%	81%	74%
Cash dividends per share	**0.30**	0.30	0.45	0.45	0.45	0.60
Net loss	**(5,582)**	(11,555)	(4,113)	(321)	(2,711)	(1,935)
Per share - basic	**(0.17)**	(0.35)	(0.13)	(0.01)	(0.08)	(0.06)
Per share - diluted	**(0.17)**	(0.35)	(0.13)	(0.01)	(0.08)	(0.06)
Capital expenditures, net of dispositions	**9,420**	1,683	8,384	14,402	13,952	21,760
Acquisition	**-**	-	-	-	153,230 (2)	17,200 (3)
Total assets	**1,169,782**	1,174,141	1,183,593	1,200,856	1,225,291	1,072,534
Working capital deficiency	**18,429**	13,115	29,804	29,080	27,558	37,633
Long-term debt	**336,923**	345,118	332,471	335,863	361,430	207,217
Shareholders' equity	**564,075**	575,925	595,805	610,793	599,911	613,886
Operations						
Oil (barrels per day)	**7,780**	8,325	8,424	9,177	8,823	8,128
NGLs (barrels per day)	**877**	845	710	753	677	791
Natural gas (MCF per day)	**21,771**	22,274	20,423	19,191	19,452	19,709
Total BOE per day	**12,285**	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.

	Q2-2016	Q1-2016	Q4-2015	Q3-2015	Q2-2015	Q1-2015	Q4-2014	Q3-2014
Crude oil								
WTI (U.S.$/bbl)	**45.59**	33.45	42.18	46.43	57.94	48.63	73.15	97.17
WTI to MSW Stream Index								
Differential (U.S.$/bbl)[1]	**(3.14)**	(3.78)	(2.51)	(3.45)	(2.93)	(6.93)	(6.46)	(7.93)
Foreign exchange								
U.S.$ to Cdn$	**1.2886**	1.3748	1.3353	1.3094	1.2294	1.2411	1.1357	1.0893
Bonterra average realized								
oil price (Cdn$/bbl)	**51.64**	37.33	49.50	53.26	64.27	48.70	71.37	92.73
Natural gas								
AECO (Cdn$/mcf)	**1.39**	1.82	2.45	2.89	2.64	2.74	3.58	4.00
Bonterra average realized								
gas price (Cdn$/mcf)	**1.48**	2.02	2.61	3.36	2.83	2.97	3.92	4.54

(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; and
- Timing of plant and refinery turnarounds.

North American commodity prices continued to deteriorate throughout 2016 from the comparative periods in 2015. Supply and demand imbalances have placed continued pressure on oil and natural gas liquids pricing throughout 2015 and the first half of 2016, with a modest recovery in the WTI benchmark pricing in the second quarter of 2016 compared to the prior quarter. In addition, market oversupply from continued low demand coupled with surplus storage levels has resulted in prolonged pressure on natural gas pricing, with the AECO benchmark falling to multi-year lows. Due to these uncontrollable factors, and with inventories and global supply continuing to remain high, predicting future commodity pricing with any certainty becomes difficult.

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 ($/bbl)	1.00	2,772	0.08
Realized natural gas price ($/mcf)	0.10	778	0.02
U.S.$ to Canadian $ exchange rate	0.01	1,275	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 second quarter results improved compared to Q1 2016 due to higher oil prices resulting in the Company's average realized oil price increasing by 38 percent and its cash netback increasing 75 percent. The Company continued its capital program by drilling four gross (3.3 net) wells in the second quarter and completing and tying-in two gross (2.0 net) wells drilled in the first quarter. Due to an early and prolonged spring break-up the wells drilled in the second quarter were completed and tied-in early in the third quarter. The Company also increased its maintenance program and due to weather improvements and a portion of pipeline restrictions being lifted, subsequent to June 30, 2016, Bonterra was able to reactivate approximately half of the 1,100 BOE per day that was shut-in or repaired during the first six months of 2016.

The Company averaged 12,584 BOE per day for the first six months of 2016, which approximates the Company's annual guidance of 12,500 BOE per day as previously disclosed. Despite the second quarter production decreasing to 12,285 BOE per day, the Company is maintaining its annual guidance. Subsequent to June 30, 2016 the Company's current production is in excess of 13,000 BOE per day.

During the first six months of 2016, Bonterra spent approximately $11,157,000 of its capital program to drill six gross (5.3 net) operated wells and tied-in an additional six gross (4.5 net) wells, which were drilled and completed in 2015. Two of the six wells drilled in the first half of 2016 were completed and tied-in the second quarter of 2016 with the remaining four wells having been completed and tied-in early in the third quarter. With the ongoing volatility of WTI oil prices, the Company continues to review capital spending on a month by month basis.

On May 31, 2016, following the semi-annual review of its credit facilities, the Company's borrowing base was adjusted by approximately 10 percent from $425 million to $380 million. These credit facilities are comprised of a $330 million syndicated revolving credit facility, and a $50 million non-syndicated revolving credit facility. The revolving period on the facilities expires on April 30, 2017, with a maturity date of April 30, 2018, subject to an annual review. As at June 30, 2016, Bonterra had $337 million drawn on the revised $380 million credit facilities, down from $345 million as at March 31, 2016, providing the Company with sufficient liquidity and financial flexibility to execute its business plan. Bonterra intends to continue repaying debt through the balance of the year.

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, average operating costs and cash netbacks 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						Six months ended			
	June 30, 2016		March 31, 2016		June 30, 2015		**June 30, 2016**		June 30, 2015	
	Gross[(1)]	**Net[(2)]**	Gross[(1)]	Net[(2)]	Gross[(1)]	Net[(2)]	**Gross[(1)]**	**Net[(2)]**	Gross[(1)]	Net[(2)]
Crude oil horizontal-operated	**4**	**3.3**	2	2.0	4	3.9	**6**	**5.3**	11	9.3
Crude oil horizontal-non-operated	-	-	-	0.0	-	-	-	-	1	0.1
Total	**4**	**3.3**	2	2.0	4	3.9	**6**	**5.3**	12	9.4
Success rate		**100%**		100%		100%		**100%**		100%

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

During the first 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 six gross (5.3 net) wells, of which two were put on production in Q2 2016 with the remaining four scheduled to begin production early in the third quarter.

Production

	Three months ended			Six months ended	
	June 30, 2016	March 31, 2016	June 30, 2015	**June 30, 2016**	June 30, 2015
Crude oil (barrels per day)	**7,780**	8,325	8,823	**8,052**	8,478
NGLs (barrels per day)	**877**	845	677	**861**	734
Natural gas (MCF per day)	**21,771**	22,274	19,452	**22,022**	19,580
Average BOE per day	**12,285**	12,882	12,743	**12,584**	12,475

Production volumes during the first six months of 2016 increased slightly from the same period a year ago. This production increase is attributable to 20 wells that were drilled in 2015 combined with a full six months of production of 1,505 BOE per day from certain oil and gas assets in the Pembina area of Alberta (the Pembina Assets) that were acquired during the second quarter in 2015. These production increases were partially offset by natural production declines, the impact of 1,100 BOE per day of production that was shut-in due to low commodity prices in the first quarter of 2016, pipeline restrictions and weather constraints experienced in the second quarter of 2016. As commodity prices improved in the second quarter, the Company reactivated most of its voluntarily shut-in production volumes subsequent to the second quarter.

Quarter over quarter, production volumes decreased by 597 BOE per day primarily due to only two new wells being placed on production in the second quarter compared to six wells placed on production in the first quarter of 2016. Wet weather conditions caused delays with drilling, completing and tying-in new wells. The Company is currently producing in excess of 13,000 BOE per day as a result of four more wells being placed on production early in the third quarter and additional shut-in production being brought on line.

Cash Netback

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

	Three months ended			Six months ended	
$ per BOE	**June 30, 2016**	March 31, 2016	June 30, 2015	**June 30, 2016**	June 30, 2015
Production volumes (BOE)	**1,117,954**	1,172,277	1,159,570	**2,290,231**	2,257,945
Gross production revenue	**$36.81**	$28.59	$49.95	**$32.60**	$44.47
Royalties	**(0.95)**	(2.10)	(2.79)	**(1.54)**	(2.98)
Production costs	**(11.62)**	(10.89)	(12.01)	**(11.25)**	(11.97)
Field netback	**$24.24**	$15.60	$35.15	**$19.81**	$29.52
General and administrative	**(1.62)**	(1.58)	(1.52)	**(1.60)**	(1.51)
Interest and other	**(3.86)**	(3.32)	(3.41)	**(3.59)**	(2.38)
Cash netback	**$18.76**	$10.70	$30.22	**$14.62**	$25.63

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

Oil and Gas Sales

	Three months ended			Six months	
	June 30, 2016	March 31, 2016	June 30, 2015	**June 30, 2016**	June 30, 2015
Revenue - oil and gas sales ($ 000s)	**41,150**	33,510	57,921	**74,660**	100,401
Average realized prices:					
Crude oil ($ per barrel)	**51.64**	37.33	64.27	**44.24**	56.85
NGLs ($ per barrel)	**20.79**	14.72	21.35	**17.81**	21.89
Natural gas ($ per MCF)	**1.48**	2.02	2.83	**1.75**	2.90
Average ($ per BOE)	**36.81**	28.59	49.95	**32.60**	44.47

Revenue from oil and gas sales decreased by $25,741,000 in 2016, or 26 percent, compared to 2015. This decrease was primarily due to a 27 percent decrease in commodity prices on a per BOE basis compared to the prior year. The quarter over quarter increase in oil and gas sales of $7,640,000 was a result of a 29 percent increase in commodity prices on a per BOE basis, partially offset by a decrease in production volumes.

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

Royalties

	Three months ended			Six months ended	
($ 000s)	**June 30, 2016**	March 31, 2016	June 30, 2015	**June 30, 2016**	June 30, 2015
Crown royalties	**489**	1,258	1,664	**1,747**	3,708
Freehold, gross overriding and other royalties	**572**	1,207	1,570	**1,779**	3,014
Total royalties	**1,061**	2,465	3,234	**3,526**	6,722
Crown royalties - percentage of revenue	**1.2**	3.8	2.9	**2.3**	3.7
Freehold, gross overriding and other royalties - percentage of revenue	**1.4**	3.6	2.7	**2.4**	3.0
Royalties - percentage of revenue	**2.6**	7.4	5.6	**4.7**	6.7
Royalties $ per BOE	**0.95**	2.10	2.79	**1.54**	2.98

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 $1.44 per BOE or 48 percent for 2016 compared to 2015, primarily due to lower commodity prices. Quarter over quarter royalties on a per BOE basis decreased due to a 20 percent drop in the Alberta crown reference price for oil used to calculate crown royalties. Also in Q1 2016, freehold royalty reworks in the Keystone area added an additional $435,000 of freehold royalties that related to previous periods prior to the acquisition of this property.

In 2016, the provincial government of Alberta announced the key highlights of the 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 the intent of providing 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 can be found on the provincial government's website. Based on currently expected commodity price ranges, the Company anticipates that the MRF will not have a material impact on Bonterra's results of operations on a go forward basis.

Production Costs

($ 000s except $ per BOE)	Three months ended June 30, 2016	March 31, 2016	June 30, 2015	Six months ended June 30, 2016	June 30, 2015
Production costs	**12,991**	12,771	13,923	**25,762**	27,023
$ per BOE	**11.62**	10.89	12.01	**11.25**	11.97

Production costs on a per BOE basis for the first six months of 2016 decreased 6 percent compared to the same period a year ago. The decrease in production costs on a BOE basis is due to 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 increased due to the reactivation costs of shut-in production. As commodity prices increase, the Company will continue with its well workover maintenance programs in order to increase production, maximize cash netbacks and increase cash flow.

Other Income

($ 000s)	Three months ended June 30, 2016	March 31, 2016	June 30, 2015	Six months ended June 30, 2016	June 30, 2015
Investment income	**1**	5	69	**6**	165
Administrative income	**39**	59	17	**98**	46
	40	64	86	**104**	211

The market value of the investments held by the Company at June 30, 2016 is $3,123,000 (June 30, 2015 - $14,703,000). The carrying value decreased primarily due to the sale of investments for proceeds of $9,084,000 during the first six months of 2016. The disposition in the first six months of 2016 resulted in a gain on sale of $3,552,000 (June 30, 2015 - $1,546,000) which was recorded as an equity transfer between accumulated other comprehensive income and retained earnings.

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

General and Administration (G&A) Expense

($ 000s except $ per BOE)	Three months ended June 30, 2016	March 31, 2016	June 30, 2015	Six months ended June 30, 2016	June 30, 2015
Employee compensation expense	**983**	964	1,070	**1,947**	1,782
Office and administrative expense	**826**	889	697	**1,715**	1,629
Total G&A expense	**1,809**	1,853	1,767	**3,662**	3,411
$ per BOE	**1.62**	1.58	1.52	**1.60**	1.51

The increase of $165,000 in employee compensation expense for the first half of 2016 compared to the same period in 2015 is related to previously recorded 2014 accrued bonuses that were unpaid and reversed in the first quarter of 2015 due to persistently low oil and gas commodity 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 interests of the employees with those of shareholders.

Office and administration expense for the first six months of 2016 increased compared to the same period in 2015 due to an increase in bank charges for credit facility renewal fees, professional fees and an increase in the allowance for doubtful accounts. The decrease quarter over quarter relates to an increase in administration cost recoveries from reactivating shut-in wells, which was partially offset by an increase in bank charges and the allowance for doubtful accounts.

Finance Costs

	Three months ended			Six months ended	
	June 30,	March 31,	June 30,	**June 30,**	June 30,
($ 000s except $ per BOE)	**2016**	2016	2015	**2016**	2015
Interest on long-term debt	**4,181**	3,768	3,018	**7,949**	4,198
Other interest	**173**	192	1,025	**365**	1,388
Interest expense	**4,354**	3,960	4,043	**8,314**	5,586
$ per BOE	**3.90**	3.38	3.49	**3.63**	2.47
Unwinding of the discounted value of decommissioning liabilities	**675**	580	469	**1,255**	860
Total finance costs	**5,029**	4,540	4,512	**9,569**	6,446

Interest on long-term debt increased $3,751,000 in 2016 compared to the same period in 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 were determined quarterly by total debt (excluding accounts payable and accrued liabilities) to current quarter EBITDA (defined as net income excluding finance costs, provision for current and deferred taxes, depletion and depreciation, share-option compensation, gain or loss on sale of assets and impairment of assets) multiplied by four.

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. On July 27, 2016 the Company repaid $2,500,000 on the subordinated promissory note and increased the interest rate from three to five percent annually. For more information about the subordinated promissory note, refer to Note 5 of the June 30, 2016 condensed financial statements.

A one percent increase (decrease) in the Canadian prime rate would decrease (increase) both annual net earnings and comprehensive income by approximately $2,547,000.

Share-Option Compensation

	Three months ended			Six months ended	
	June 30,	March 31,	June 30,	**June 30,**	June 30,
($ 000s)	**2016**	2016	2015	**2016**	2015
Share-option compensation	**1,255**	1,249	997	**2,504**	1,762

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 $742,000 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.

Based on the outstanding options as of June 30, 2016, the Company has an unamortized expense of $2,212,000, of which $1,658,000 will be recorded for the remainder of 2016, $538,000 for 2017 and $16,000 thereafter. For more information about options issued and outstanding, refer to Note 9 of the June 30, 2016 condensed financial statements.

Depletion and Depreciation, Exploration and Evaluation and Goodwill

	Three months ended			Six months ended	
	June 30,	March 31,	June 30,	**June 30,**	June 30,
($ 000s)	**2016**	2016	2015	**2016**	2015
Depletion and depreciation	**25,965**	25,145	24,898	**51,110**	48,789

Provision for depletion and depreciation increased by $2,321,000 for 2016 compared to the same period in 2015. The increase in depletion and depreciation is due to the $238,054,000 increase in property, plant and equipment (PP&E) from Q1 2015 to the end of Q2 2016. The increase in PP&E 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 half of 2016. The increase in decommissioning liabilities was due to a decrease in the risk-free interest rate and 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 three and six month periods ended June 30, 2016 or 2015.

Taxes

The Company recorded a total tax recovery of $4,232,000 (2015 – total tax expense of $11,105,000). 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 $3,553,000 for provincial income tax losses that were carried back to recover prior provincial income taxes paid. The Company has received payment of $1,771,000 and has presently set up a receivable of $1,782,000. Depending on the Company's tax position by the end of the year, the receivable would likely be collected by the end of the second quarter of 2017.

For additional information regarding income taxes, see Note 8 of the June 30, 2016 condensed financial statements.

Net Loss

	Three months ended			Six months ended	
	June 30,	March 31,	June 30,	**June 30,**	June 30,
($ 000s except $ per share)	**2016**	2016	2015	**2016**	2015
Net Loss	**(5,582)**	(11,555)	(2,711)	**(17,137)**	(4,646)
$ per share - basic	**(0.17)**	(0.36)	(0.08)	**(0.52)**	(0.14)
$ per share - diluted	**(0.17)**	(0.36)	(0.08)	**(0.52)**	(0.14)

Net loss for the first six months of 2016 increased by $12,491,000 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, partially offset by a decrease in royalties, production costs and a current and deferred income tax recovery.

The quarter over quarter decrease in net loss was mainly due to higher crude oil prices.

Other Comprehensive Income (Loss)

Other comprehensive income for 2016 consists of an unrealized gain before tax on investments (including investment in a related party) of $2,670,000 relating to an increase in the investments' fair value (June 30, 2015 – $1,400,000). 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			Six months ended	
($ 000s except $ per share)	**June 30, 2016**	March 31, 2016	June 30, 2015	**June 30, 2016**	June 30, 2015
Cash flow from operations	**13,392**	11,146	17,960	**24,538**	44,039
$ per share - basic	**0.40**	0.34	0.56	**0.74**	1.37
$ per share - diluted	**0.40**	0.34	0.56	**0.74**	1.37

In 2016, cash flow from operations decreased by $19,501,000 compared to 2015. This was primarily due to a decrease in revenue from oil and gas sales and an increase in finance costs, partially offset by a decrease in royalties, production costs and a current income tax recovery. Excluding working capital adjustments cash flow would have increased by $10,782,000 to $35,320,000, resulting in excess cash flow of $4,277,000 after capital expenditures of $11,157,000 and dividend payments of $19,886,000 during the first half of 2016. The quarter over quarter increase of $2,246,000 is primarily due to an increase in oil prices, which was partially offset by a decrease in production.

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 June 30, 2016 of $962,000 (December 31, 2015 of $962,000). Pine Cliff paid a management fee to the Company of $15,000 (June 30, 2015 - $30,000) 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. On April 1, 2016, the management agreement was terminated. As at June 30, 2016, the Company had an account receivable from Pine Cliff of $21,000 (December 31, 2015 – $293,000).

As at June 30, 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 six months of 2016 was $124,000 (June 30, 2015 - $134,000). 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 June 30, 2016 was a ratio of 4.0 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 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 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)	**June 30, 2016**	December 31, 2015	June 30, 2015
Woking capital deficiency	**18,429**	29,807	27,558
Long-term bank debt	**336,923**	332,471	361,430
Net Debt	**355,352**	362,278	388,988

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 net debt 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 decreased compared to June 2015 and December 2015. This was a result of decreased capital spending and a reduction of the monthly dividend from $0.15 per share to $0.10 per share that commenced with the January 2016 dividend. On January 22, 2016 the Company repaid $10,000,000 of its subordinated promissory note, which decreased working capital deficiency but increased long-term debt. Long-term debt was initially reduced by the disposition of a portion of the marketable securities for proceeds of $9,084,000.

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 June 30, 2016 is $27 million of debt relating to the subordinated promissory note and the amount due to a related party.

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

Capital Expenditures

During the six months ended June 30, 2016, the Company incurred capital expenditures of $11,157,000 (June 30, 2015 - $35,712,000). The costs relate to the drilling of six gross (5.3 net) Cardium operated horizontal wells, of which two were completed and tied-in during the second quarter. The Company also incurred tie-in costs related to six gross (4.5 net) Cardium operated wells that were drilled and completed in 2015.

Liability Management Ratio ("LMR") update

On June 20, 2016, the Alberta Energy Regulator increased the LMR threshold for license transfers to 2.0. At the time, Bonterra's LMR of assets versus liabilities, as determined by the formula set out in the program, was 1.74. The Company reacted immediately to the regulatory changes and began an internal program to bring the LMR to 2.0.

Without spending any money, the Company has been able to increase the LMR rating to 2.12. The Company does not expect that with its current LMR there will be any impediments to future acquisition opportunities.

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 June 30, 2016, the Company has bank facilities consisting of a $330,000,000 (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 June 30, 2016 totaled $336,923,000 (December 31, 2015 - $332,471,000). The interest rates for the six month period to June 30, 2016 on the Company's Canadian prime rate loan and Banker's Acceptances averaged between five to six percent. The loan is revolving to April 30, 2017 with a maturity date of April 30, 2018, subject to annual review. The credit facilities have no fixed terms of repayment.

Advances drawn under the credit facilities are secured by a fixed and floating charge debenture over the assets of the Company. In the event the credit facilities are not extended or renewed, amounts drawn under the facility would be due and payable on the maturity date. The size of the committed credit facilities is based primarily on the value of the Company's producing petroleum and natural gas assets and related tangible assets as determined by the lenders. For more information see Note 6 of the June 30, 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, June 30, 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 June 30, 2016 condensed financial statements.

Dividend Policy

For the three months ended June 30, 2016, the Company declared and paid dividends of $9,943,000 ($0.30 per share) (June 30, 2015 - $14,476,000 ($0.45 per share)). For the six months ended June 30, 2016, the Company declared and paid dividends of $19,886,000 ($0.60 per share) (June 30, 2015 – 33,778,000 ($1.05 per share)). 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 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 81 percent for the six months ended June 30, 2016 (77 percent for the six months ended June 30, 2015).

Quarterly Financial Information

	2016		2015			
For the periods ended ($ 000s except $ per share)	**Q2**	Q1	Q4	Q3	Q2	Q1
Revenue - oil and gas sales	**41,150**	33,510	44,678	52,160	57,921	42,480
Cash flow from operations	**13,392**	11,146	27,808	36,024	17,960	26,079
Net loss	**(5,582)**	(11,555)	(4,113)	(321)	(2,711)	(1,935)
Per share - basic	**(0.17)**	(0.35)	(0.13)	(0.01)	(0.08)	(0.06)
Per share - diluted	**(0.17)**	(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 June 30, 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 six months ended June 30, 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	June 30, 2016	December 31, 2015
Assets			
Current			
Accounts receivable		**21,816**	15,433
Crude oil inventory		**660**	868
Prepaid expenses		**3,338**	2,798
Investments		**2,161**	8,576
		27,975	27,675
Investment in related party		**962**	962
Exploration and evaluation assets		**7,871**	7,925
Property, plant and equipment	3	**1,031,330**	1,045,387
Investment tax credit receivable	8	**8,834**	8,834
Goodwill		**92,810**	92,810
		1,169,782	1,183,593
Liabilities			
Current			
Accounts payable and accrued liabilities		**19,404**	20,479
Due to related party	4	**12,000**	12,000
Subordinated promissory note	5	**15,000**	25,000
		46,404	57,479
Bank debt	6	**336,923**	332,471
Decommissioning liabilities	7	**96,862**	71,523
Deferred tax liability	8	**125,518**	126,315
		605,707	587,788
Subsequent events	11		
Shareholders' equity			
Share capital	9	**760,020**	760,020
Contributed surplus		**18,269**	15,765
Accumulated other comprehensive income (loss)		**(192)**	571
Retained earnings (deficit)		**(214,022)**	(180,551)
		564,075	595,805
		1,169,782	1,183,593

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF COMPREHENSIVE LOSS

For the periods ended June 30 (unaudited)		Three Months		Six Months	
($ 000s, except $ per share)	Note	**2016**	2015	**2016**	2015
Revenue					
Oil and gas sales, net of royalties	10	**40,089**	54,687	**71,134**	93,679
Other income		**40**	86	**104**	211
		40,129	54,773	**71,238**	93,890
Expenses					
Production		**12,991**	13,923	**25,762**	27,023
Office and administration		**826**	697	**1,715**	1,629
Employee compensation		**983**	1,070	**1,947**	1,782
Finance costs		**5,029**	4,512	**9,569**	6,446
Share-option compensation	9	**1,255**	997	**2,504**	1,762
Depletion and depreciation	3	**25,965**	24,898	**51,110**	48,789
		47,049	46,097	**92,607**	87,431
Earnings (loss) before income taxes		**(6,920)**	8,676	**(21,369)**	6,459
Taxes					
Current income tax expense (recovery)	8	**(274)**	(1,135)	**(3,553)**	(395)
Deferred income tax expense (recovery)	8	**(1,064)**	12,522	**(679)**	11,500
		(1,338)	11,387	**(4,232)**	11,105
Net loss for the period		**(5,582)**	(2,711)	**(17,137)**	(4,646)
Other comprehensive income (loss)					
Unrealized gain on investments		**2,317**	2,360	**2,670**	1,400
Deferred taxes on unrealized gain on investments		**(312)**	(354)	**(360)**	(234)
Other comprehensive income for the period		**2,005**	2,006	**2,310**	1,166
Total comprehensive loss for the period		**(3,577)**	(705)	**(14,827)**	(3,480)
Net loss per share-basis	9	**(0.17)**	(0.08)	**(0.52)**	(0.14)
Net loss per share-diluted	9	**(0.17)**	(0.08)	**(0.52)**	(0.14)
Comprehensive loss per share-basic	9	**(0.11)**	(0.02)	**(0.45)**	(0.11)
Comprehensive loss per share-diluted	9	**(0.11)**	(0.02)	**(0.45)**	(0.11)

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF CASH FLOW

For the periods ended June 30 (unaudited)		Three months		Six Months	
($ 000s)	Note	**2016**	2015	**2016**	2015
Operating activities					
Net loss		**(5,582)**	(2,711)	**(17,137)**	(4,646)
Items not affecting cash					
Deferred income taxes		**(1,064)**	12,522	**(679)**	11,500
Share-option compensation		**1,255**	997	**2,504**	1,762
Depletion and depreciation		**25,965**	24,898	**51,110**	48,789
Unwinding of the discount on decommissioning liabilities		**675**	469	**1,255**	860
Investment income		**(6)**	(69)	**(11)**	(165)
Interest expense		**4,355**	4,042	**8,315**	5,586
Change in non-cash working capital accounts:					
Accounts receivable		**(4,247)**	(8,547)	**(7,290)**	(5,786)
Crude oil inventory		**81**	(75)	**120**	313
Prepaid expenses		**(1,088)**	(2,348)	**(540)**	(1,889)
Investment tax credit receivable		**-**	(705)	**-**	(261)
Accounts payable and accrued liabilities		**(1,575)**	(6,225)	**(3,072)**	(6,170)
Decommissioning expenditures		**(1,022)**	(246)	**(1,722)**	(268)
Interest paid		**(4,355)**	(4,042)	**(8,315)**	(5,586)
Cash provided by operating activities		**13,392**	17,960	**24,538**	44,039
Financing activities					
Increase (decrease) in bank debt		**(8,195)**	154,213	**4,452**	206,707
Subordinated promissory note		**-**	(5,000)	**(10,000)**	(5,000)
Dividends		**(9,943)**	(14,476)	**(19,886)**	(33,778)
Cash provided by (used in) financing activities		**(18,138)**	134,737	**(25,434)**	167,929
Investing activities					
Investment income received		**6**	69	**11**	165
Exploration and evaluation expenditures		**-**	-	**-**	(432)
Property, plant and equipment expenditures		**(9,474)**	(13,952)	**(11,157)**	(35,280)
Proceeds on sale of property		**54**	-	**54**	-
Purchase of investments	3	**-**	-	**-**	(12,221)
Proceeds on sale of investments		**8,516**	6,883	**9,084**	6,883
Acquisition		**-**	(153,230)	**-**	(170,430)
Change in non-cash working capital accounts:					
Accounts payable and accrued liabilities		**6,093**	5,315	**1,997**	(1,630)
Accounts receivable		**(449)**	2,218	**907**	977
Cash provided by (used in) investing activities		**4,746**	(152,697)	**896**	(211,968)
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 EOUITY

For the periods ended (unaudited)

($ 000's, except number of shares outstanding)

	Numbers of shares outstanding (Note 9)	Share Capital (Note 9)	Contributed surplus [1]	Accumulated other Comprehensive income (loss) [2]	Retained earnings (deficit)	Total shareholder's equity
January 1, 2015	32,169,623	728,934	11,495	3,824	(109,055)	635,198
Share-option compensation			1,762			1,762
Comprehensive income (loss)				1,166	(4,646)	(3,480)
Transfer on realized gain on investments				(1,546)	1,546	-
Deferred taxes on realized gain on investments				209		209
Dividends					(33,778)	(33,778)
June 30, 2015	32,169,623	728,934	13,257	3,653	(145,933)	599,911
Share-option compensation			2,508			2,508
Share issuances, private placement	973,812	31,162				31,162
Share issue costs, net of tax		(76)				(76)
Comprehensive loss				(3,389)	(4,434)	(7,823)
Transfer on realized loss on investments				355	(355)	-
Deferred taxes on realized loss on investments				(48)		(48)
Dividends					(29,829)	(29,829)
December 31, 2015	33,143,435	760,020	15,765	571	(180,551)	595,805
Share-option compensation			2,504			2,504
Comprehensive income (loss)				2,310	(17,137)	(14,827)
Transfer on realized gain on investments				(3,552)	3,552	-
Deferred taxes on realized gain on investments				479		479
Dividends					(19,886)	(19,886)
June 30, 2016	33,143,435	760,020	18,269	(192)	(214,022)	564,075

(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 June 30, 2016 and December 31, 2015 and for the three and six months ended June 30, 2016, and June 30, 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 August 10, 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	7,964	3,182	11	11,157
Adjustment to decommissioning liabilities	25,806	-	-	25,806
Balance at June 30, 2016	**1,256,453**	**305,963**	**2,064**	**1,564,480**

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	(43,371)	(7,697)	(42)	(51,110)
Disposal and other	90	-	-	90
Balance at June 30, 2016	**(433,766)**	**(97,813)**	**(1,571)**	**(533,150)**

Carrying amounts as at: **($ 000s)**				
December 31, 2015	832,198	212,665	524	1,045,387
June 30, 2016	**822,687**	**208,150**	**493**	**1,031,330**

(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 loss. There were no impairment losses or reversals recorded in the statement of comprehensive loss for the three and six months ended June 30, 2016 and 2015.

4. TRANSACTIONS WITH RELATED PARTIES

As at June 30, 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 during the first six months of 2016 was $124,000 (June 30, 2015 - $134,000).

The Company received a management fee of $15,000 plus the reimbursement of certain administrative expenses for the six months ended June 30, 2016 (June 30, 2015 - $30,000) for management services and office administration from Pine Cliff Energy Ltd. ("Pine Cliff"). This fee has been included in other income. On April 1, 2016, the management agreement was terminated. As at June 30, 2016, the Company had an account receivable from Pine Cliff of $21,000 (December 31, 2015 - $293,000).

5. SUBORDINATED PROMISSORY NOTE

As at June 30, 2016, Bonterra had $15,000,000 (December 31, 2015 - $25,000,000) outstanding 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 six months was $242,000 (June 30, 2015 - $558,000). The Company repaid $10,000,000 on January 22, 2016.

Subsequent to June 30, 2016, on July 27, 2016 the Company repaid $2,500,000 and increased the interest rate to five percent annually.

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 June 30, 2016, the Company has bank facilities consisting of a $330,000,000 (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 $380,000,000. Amounts drawn under the credit facilities at June 30, 2016 were $336,923,000 (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 1.00 percent and 4.25 percent, depending on the type of borrowing and the Company's consolidated debt to EBITDA ratio. EBITDA is defined as net income for the period excluding finance costs, provision for current and deferred taxes, depletion and depreciation, share-option compensation, gain or loss on sale of assets and impairment of assets. The terms of the revolving credit facilities provided that the loan is revolving to April 30, 2017, with a maturity date of April 30, 2018, 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.

The amount available for borrowing under the credit facilities is reduced by outstanding letters of credit. Letters of credit totaling $2,710,000 were issued as at June 30, 2016 (December 31, 2015 - $1,950,000). On August 2, 2016 the Company increased the letters of credit by $280,000.

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 $380,000,000 in consolidated debt (excluding accounts payable and accrued liabilities). As at June 30, 2016 consolidated debt is $363,923,000.
- 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 40 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 June 30, 2016, the Company is in compliance with all covenants.

7. DECOMMISSIONING LIABILITIES

At June 30, 2016, the estimated total undiscounted amount required to settle the decommissioning liabilities was $260,980,000 (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 2.4 percent (December 31, 2015 – 2.9 percent).

($ 000s)	
Decommissioning liabilities, December 31, 2015	**71,523**
Adjustment to decommissioning liabilities [1]	25,806
Liabilities settled during the period	(1,722)
Unwinding of the discount on decommissioning liabilities	1,255
Decommissioning liabilities, June 30, 2016	**96,862**

(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	101,762
Eligible capital expenditures	7	2,330
Share issue costs	20	1,886
Canadian oil and gas property expenditures	10	170,300
Canadian development expenditures	30	175,808
Canadian exploration expenditures	100	8,063
Federal income tax losses carried forward [1]	100	40,440
Provincial income tax losses carried forward [2]	100	4,617
		505,206

(1) Federal income tax losses carried forward expire in the following years; 2035 - $18,433,000; 2036 - $22,007,000.
(2) Provincial income tax losses carried forward expire in 2036.

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 $63,926,000 (December 31, 2015 - $67,691,000) of capital losses carried forward which can only be claimed against taxable capital gains.

The $3,553,000 current tax recovery for 2016 is comprised of provincial income tax losses that were carried back to recover prior provincial income tax payable. The Company has received payment of $1,771,000 with $1,782,000 remaining 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, June 30, 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 three and six months ended is as follows:

	Three Months		Six Months	
	June 30, 2016	June 30, 2015	**June 30, 2016**	June 30, 2015
Basic shares outstanding	**33,143,435**	32,169,623	**33,143,435**	32,169,623
Dilutive effect of share options [(1)]	**124,258**	-	**644**	-
Diluted shares outstanding	**33,267,693**	32,169,623	**33,144,079**	32,169,623

(1) The Company did not include 1,899,500 share options for the three months ended June 30, 2016 (June 30, 2015 – 3,024,000) and 2,706,500 share options for the six months ended June 30, 2016 (June 30, 2015 – 3,024,000) in the dilutive effect of share options calculation as these share options were anti-dilutive.

For the three months ended June 30, 2016, the Company declared and paid dividends of $9,943,000 ($0.30 per share) (June 30, 2015 - $14,476,000 ($0.45 per share)). For the six months ended June 30, 2016, the Company declared and paid dividends of $19,886,000 ($0.60 per share) (June 30, 2015 – 33,778,000 ($1.05 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 June 30, 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	(105,000)	$50.39
Options expired	(144,000)	$51.56
Balance, June 30 2016	2,739,500	$39.02

The following table summarizes information about options outstanding at June 30, 2016:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding at June 30, 2016	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at June 30, 2016	Weighted-average exercise price
$ 17.00 - $ 30.00	840,000	1.3 years	$20.33	-	$ -
30.01 - 50.00	979,500	1.2 years	35.32	31,000	43.22
50.01 - 65.00	920,000	0.4 years	60.03	714,000	60.56
$ 17.00 - $ 65.00	2,739,500	1.0 years	$39.02	745,000	$59.84

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:

	June 30, 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

	Three months		Six Months	
($ 000s)	**June 30, 2016**	June 30, 2015	**June 30, 2016**	June 30, 2015
Oil and gas sales	**41,150**	57,921	**74,660**	100,401
Less:				
Crown royalties	**(489)**	(1,664)	**(1,747)**	(3,708)
Freehold, gross overriding royalties and other	**(572)**	(1,570)	**(1,779)**	(3,014)
Oil and gas sales, net of royalties	**40,089**	54,687	**71,134**	93,679

11. SUBSEQUENT EVENTS

Subsequent to June 30, 2016, the Company declared the following dividends:

Date declared	Record date	$ per share	Date payable
July 4, 2016	July 15, 2016	0.10	July 29, 2016
August 2, 2016	August 15, 2016	0.10	August 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

Auditors
Deloitte LLP

Solicitors
Borden Ladner Gervais LLP

Bankers
CIBC
National Bank of Canada
TD Securities
Alberta Treasury Branch
Business Development Bank of Canada

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