For the Nine Months ended September 30, 2016

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BONTERRA ENERGY REPORTS THIRD QUARTER AND NINE MONTHS 2016 FINANCIAL AND OPERATING RESULTS

HIGHLIGHTS

		Three months ended		Nine months ended	
As at and for the periods ended ($ 000s except for $ per share and $ per BOE)		**September 30, 2016**	September 30, 2015	**September 30, 2016**	September 30, 2015
FINANCIAL					
Revenue - realized oil and gas sales (1)		**46,236**	52,160	**120,896**	152,561
Funds flow (1)(2)		**23,510**	28,754	**69,647**	93,902
Per share - basic and diluted		**0.71**	0.87	**2.10**	2.89
Dividend payout ratio		**42%**	52%	**43%**	52%
Cash flow from operations		**19,219**	36,024	**43,757**	80,063
Per share - basic and diluted		**0.58**	1.09	**1.32**	2.47
Dividend payout ratio		**52%**	41%	**68%**	61%
Cash dividends per share		**0.30**	0.45	**0.90**	1.50
Net loss		**(5,830)**	(321)	**(22,967)**	(4,967)
Per share - basic and diluted		**(0.18)**	(0.01)	**(0.69)**	(0.15)
Corporate netback per BOE (3)(4)		**17.83**	23.84	**15.74**	25.00
Capital expenditures, net of dispositions		**17,424**	14,402	**28,527**	50,114
Acquisition(5)		**-**	-	**-**	170,430
Total assets				**1,163,743**	1,200,856
Working capital deficiency				**26,361**	29,080
Long-term debt				**335,953**	335,863
Shareholders' equity				**549,870**	610,793
OPERATIONS					
Oil	-barrels per day	**8,197**	9,177	**8,101**	8,713
	-average price ($ per barrel)	**51.80**	53.26	**46.81**	55.58
NGLs	-barrels per day	**942**	753	**888**	740
	-average price ($ per barrel)	**17.29**	18.05	**17.62**	20.58
Natural gas	- MCF per day	**24,948**	19,191	**23,005**	19,449
	- average price ($ per MCF)	**2.47**	3.36	**2.02**	3.05
Total barrels of oil equivalent per day (BOE) (3)		**13,298**	13,129	**12,823**	12,695

(1) Three and nine 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 September 30, 2015. For the nine months ended September 30, 2015 production includes 168 days for Pembina Assets and 273 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.

REPORT TO SHAREHOLDERS

Bonterra Energy Corp. ("Bonterra" or the "Company") is pleased to report its financial and operating results for the three and nine months ended September 30, 2016. Commodity prices increased modestly in the third quarter, but continued to be substantially lower than for the similar periods in 2015. Production volumes were slightly higher in the three and nine month periods in 2016 compared to 2015.

Overall Bonterra continues to be strong in three key areas:

1. Low corporate costs (includes royalties, operating costs, general and administration and loan interest payments) of approximately $20 per BOE CDN.
2. Maintaining low production decline rates of approximately eighteen percent, which represents one of the lowest rates among operating oil and gas companies in Western Canada.
3. A high inventory of economic undrilled locations that contribute to long term sustainability.

In the near future, Bonterra will continue to focus on reducing debt to a level that is less than 2.5 times funds flow during low commodity prices and less than 1.5 times funds flow when oil prices are in excess of U.S. $60 West Texas Intermediate (WTI) and natural gas prices exceed $3.50 CDN per MCF for Bonterra's realized price.

Other areas which are uncertain but must be considered due to the potential impact on Bonterra are:

1. Climate change and costs to producers related to CO_2 and methane emissions and specifically how can Canada remain competitive with other countries, including the U.S.
2. The impact of the U.S. election.
3. Market access and the uncertainty about whether another pipeline will be approved and built through British Columbia. Will the TransCanada East pipeline ever receive approval?
4. Ongoing questions around the future directions that may be taken by the relatively new Federal and Provincial governments.
5. How the resource industry is viewed by the general Canadian population and how does the industry convince the general public about the need to have a strong industry.

Third Quarter and Nine Months 2016 Highlights:

- The Company has been able to increase its production volumes during a period when prices were low and its capital expenditures for the first nine months of 2016 were at the lowest of any similar period in the past five years.
- The Company has been able to continue its monthly dividend of $0.10 per share.
- Funds flow for the first nine months of 2016 is approximately $70 million compared to total expenditures for dividends paid and capital spending of approximately $58 million.
- Continued reductions have been achieved in per well costs for drilling, completing, equipping and tie-ins.
- The Company's borrowing base of $380 million confirmed by its banking syndicate is more than adequate to continue with Bonterra's future growth plans.

Outlook

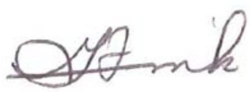
It is extremely difficult to predict when commodity prices will increase worldwide and in North America. With regard to oil prices, it is not known how long it will be before the world supply is less than world demand. With regard to natural gas prices, the short term prices will be mainly determined by weather in North America during this winter. On a longer term basis the demand for natural gas usage will likely substantially increase in North America, which should result in gradual increases in its price.

Bonterra's Board of Directors and Management will continue to assess the Company's funds flow growth and its ongoing costs on a monthly basis to ensure that funds flow exceeds capital expenditures and dividend payments. Any excess funds flow will be directed to debt reduction.

The political implications are difficult to assess. In Canada the Federal and Alberta provincial governments have imposed major tax increases and appear to be proceeding with increasing costs for CO_2 and methane emissions without giving much consideration to making Canada uncompetitive on a North American and world basis. The outcome of the U.S. election could result in some benefits and some hardships for the resource industry and for the overall Canadian economy. Issues such as U.S. protectionism and the potential for building the Keystone Pipeline are just a few of the major items that will have significant Canadian implications.

Overall, Bonterra will continue to be one of the stronger companies in the resource industry. Being a low cost producer, maintaining a low production decline rate, having a large inventory of economic undrilled locations and most important, having very capable and devoted employees who recognize it is a big challenge to succeed and be one of the more successful companies during this low price environment.

Thank you shareholders for your continued support.



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

Management's Discussion and analysis

The following report dated November 9, 2016 is a review of the operations and current financial position for the three and nine months ended September 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 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)	**Q3**	Q2	Q1	Q4	Q3	Q2 [1]	Q1
Financial							
Revenue - oil and gas sales	**46,236**	41,150	33,510	44,678	52,160	57,921	42,480
Cash flow from operations	**19,219**	13,392	11,146	27,808	36,024	17,960	26,079
Per share - basic	**0.58**	0.40	0.34	0.84	1.09	0.56	0.81
Per share - diluted	**0.58**	0.40	0.34	0.84	1.09	0.56	0.81
Payout ratio	**52%**	75%	89%	54%	41%	81%	74%
Cash dividends per share	**0.30**	0.30	0.30	0.45	0.45	0.45	0.60
Net loss	**(5,830)**	(5,582)	(11,555)	(4,113)	(321)	(2,711)	(1,935)
Per share - basic	**(0.18)**	(0.17)	(0.35)	(0.13)	(0.01)	(0.08)	(0.06)
Per share - diluted	**(0.18)**	(0.17)	(0.35)	(0.13)	(0.01)	(0.08)	(0.06)
Capital expenditures, net of dispositions	**17,424**	9,420	1,683	8,384	14,402	13,952	21,760
Acquisition	**-**	-	-	-	-	153,230 [2]	17,200 [3]
Total assets	**1,163,743**	1,169,782	1,174,141	1,183,593	1,200,856	1,225,291	1,072,534
Working capital deficiency	**26,361**	18,429	13,115	29,804	29,080	27,558	37,633
Long-term debt	**335,953**	336,923	345,118	332,471	335,863	361,430	207,217
Shareholders' equity	**549,870**	564,075	575,925	595,805	610,793	599,911	613,886
Operations							
Oil (barrels per day)	**8,197**	7,780	8,325	8,424	9,177	8,823	8,128
NGLs (barrels per day)	**942**	877	845	710	753	677	791
Natural gas (MCF per day)	**24,948**	21,771	22,274	20,423	19,191	19,452	19,709
Total BOE per day	**13,298**	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.

	Q3-2016	Q2-2016	Q1-2016	Q4-2015	Q3-2015	Q2-2015	Q1-2015	Q4-2014
Crude oil								
WTI (U.S.$/bbl)	**44.94**	45.59	33.45	42.18	46.43	57.94	48.63	73.15
WTI to MSW Stream Index								
Differential (U.S.$/bbl)[1]	**(3.02)**	(3.14)	(3.78)	(2.51)	(3.45)	(2.93)	(6.93)	(6.46)
Foreign exchange								
U.S.$ to Cdn$	**1.3051**	1.2886	1.3748	1.3353	1.3094	1.2294	1.2411	1.1357
Bonterra average realized								
oil price (Cdn$/bbl)	**51.80**	51.64	37.33	49.50	53.26	64.27	48.70	71.37
Natural gas								
AECO (Cdn$/mcf)	**2.31**	1.39	1.82	2.45	2.89	2.64	2.74	3.58
Bonterra average realized								
gas price (Cdn$/mcf)	**2.47**	1.48	2.02	2.61	3.36	2.83	2.97	3.92

(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 supply and demand;
- 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 remain volatile throughout 2016. Global supply and demand imbalances have placed continued pressure on oil, natural gas and liquids pricing throughout 2015 and the first nine months of 2016. WTI benchmark pricing in the second and third quarter of 2016 increased approximately 35 percent compared to the first quarter. The AECO benchmark price has improved in the third quarter of 2016 compared to the multi-year low experienced in the second quarter. The increase in the AECO benchmark price is a result of a reduction in supply due to decreased drilling activity and increased demand from warm weather in the summer months. Continuing changes in production, inventories and global supply makes it difficult to predict 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 ($/bbl)	1.00	2,734	0.08
Realized natural gas price ($/mcf)	0.10	790	0.02
U.S.$ to Canadian $ exchange rate	0.01	1,258	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 33,168,304

Business Overview, Strategy and Key Performance Drivers

Bonterra's third quarter results continued to improve compared to the first two quarters of 2016 due to increased production and higher commodity prices resulting in a 72 percent increase in cash flow from operations compared to the first quarter and 44 percent increase compared to the second quarter of 2016.

The Company averaged 12,823 BOE per day for the first nine months of 2016, which exceeds the Company's annual guidance of 12,500 BOE per day. Bonterra continues to review production volumes on a month to month basis and uses commodity prices to determine its drilling activity and its reactivation of its voluntary shut-in production. Voluntary shut-in production that was placed on production for the first two quarters was 180 BOE per day and 300 BOE per day in the third quarter. The Company also had a more aggressive well maintenance program in Q3 and repaired many of the wells that went down in the first half of 2016. Production from these wells is approximately 300 BOE per day.

During the first nine months of 2016, Bonterra spent approximately $28,527,000 of its capital program to drill seventeen gross (16.0 net) operated wells and tied-in an additional fourteen gross (11.6 net) wells. Six gross (4.5 net) wells of the fourteen were drilled and completed in 2015, but were not equipped or tied-in until 2016.

The Company drilled eleven gross (10.7 net) wells and placed six gross (5.2 net) wells on production in the third quarter. The Company will place the remaining drilled but not completed wells on production in the fourth quarter. The ongoing volatility of WTI oil prices and the current lower overall cost of new wells, makes it necessary for the Company to continue to review capital spending and cash flow on a month by month basis.

On October 26, 2016, following the semi-annual review of its credit facilities, the Company's borrowing base was successfully renewed at $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 September 30, 2016, Bonterra had $336 million drawn on the $380 million credit facilities, down from $345 million as at March 31, 2016. These credit facilities provide 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						Nine months ended			
	September 30, 2016		June 30, 2016		September 30, 2015		**September 30, 2016**		September 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	**11**	**10.7**	4	3.3	6	5.9	**17**	**16.0**	17	15.2
Crude oil horizontal-non-operated	**-**	**-**	-	-	2	0.3	**-**	**-**	3	0.4
Total	**11**	**10.7**	4	3.3	8	6.2	**17**	**16.0**	20	15.6
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 seventeen gross (16.0 net) wells, of which eight were put on production primarily in the third quarter. The remaining nine wells are anticipated to be on production in the fourth quarter.

Production

	Three months ended			Nine months ended	
	September 30, 2016	June 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Crude oil (barrels per day)	**8,197**	7,780	9,177	**8,101**	8,713
NGLs (barrels per day)	**942**	877	753	**888**	740
Natural gas (MCF per day)	**24,948**	21,771	19,191	**23,005**	19,449
Average BOE per day	**13,298**	12,285	13,129	**12,823**	12,695

Production volumes during the first nine months of 2016 were comparable to the same period a year ago. This slight production increase is attributable to reactivating 600 BOE per day of voluntary shut-in production and repairing down wells in the third quarter of 2016, the Company's capital program and a full nine months of production of 1,500 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 and the impact of 1,100 BOE per day of production that was shut-in during the first half of 2016, due to voluntary shut-in production, down wells, pipeline restrictions and weather constraints.

Production for the second quarter was negatively affected compared to the third quarter from poor weather conditions causing delays with drilling, completing and tying-in new wells, delaying reactivation of shut-in production and additional third-party restrictions.

Cash Netback

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

	Three months ended			Nine months ended	
$ per BOE	**September 30, 2016**	June 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Production volumes (BOE)	**1,223,384**	1,117,954	1,207,856	**3,513,615**	3,465,801
Gross production revenue	**$37.79**	$36.81	$43.18	**$34.41**	$44.02
Royalties	**(2.60)**	(0.95)	(3.06)	**(1.91)**	(3.01)
Production costs	**(12.43)**	(11.62)	(12.06)	**(11.66)**	(12.00)
Field netback	**$22.76**	$24.24	$28.06	**$20.84**	$29.01
General and administrative	**(1.11)**	(1.62)	(1.59)	**(1.43)**	(1.54)
Interest and other	**(3.82)**	(3.86)	(2.63)	**(3.67)**	(2.47)
Cash netback	**$17.83**	$18.76	$23.84	**$15.74**	$25.00

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 decrease in quarter over quarter cash netbacks was primarily a result of an increase in production costs and royalties that was partially offset by increased realized natural gas prices.

Oil and Gas Sales

	Three months ended			Nine months ended	
	September 30, 2016	June 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Revenue - oil and gas sales ($ 000s)	**46,236**	41,150	52,160	**120,896**	152,561
Average realized prices:					
Crude oil ($ per barrel)	**51.80**	51.64	53.26	**46.81**	55.58
NGLs ($ per barrel)	**17.29**	20.79	18.05	**17.62**	20.58
Natural gas ($ per MCF)	**2.47**	1.48	3.36	**2.02**	3.05
Average ($ per BOE)	**37.79**	36.81	43.18	**34.41**	44.02

Revenue from oil and gas sales decreased by $31,665,000 in 2016, or 21 percent, compared to 2015. This decrease was primarily due to a 22 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 $5,086,000 was a result of a three percent increase in commodity prices on a per BOE basis and a nine percent increase in production volumes.

The Company's product split on a revenue basis for 2016 is approximately 89 percent weighted towards crude oil and NGLs.

Royalties

	Three months ended			Nine months ended	
($ 000s)	**September 30, 2016**	June 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Crown royalties	**2,219**	489	2,398	**3,966**	6,106
Freehold, gross overriding and other royalties	**959**	572	1,301	**2,738**	4,315
Total royalties	**3,178**	1,061	3,699	**6,704**	10,421
Crown royalties - percentage of revenue	**4.8**	1.2	4.6	**3.3**	4.0
Freehold, gross overriding and other royalties - percentage of revenue	**2.1**	1.4	2.5	**2.3**	2.8
Royalties - percentage of revenue	**6.9**	2.6	7.1	**5.6**	6.8
Royalties $ per BOE	**2.60**	0.95	3.06	**1.91**	3.01

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 $1.10 per BOE or 37 percent for 2016 compared to 2015, primarily due to lower commodity prices. Quarter over quarter royalties on a per BOE basis increased due to increased gas prices and a 56 percent rise in the Alberta crown reference price for oil that is used to calculate crown royalties.

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 **September 30, 2016**	June 30, 2016	September 30, 2015	Nine months ended **September 30, 2016**	September 30, 2015
Production costs	**15,205**	12,991	14,570	**40,967**	41,593
$ per BOE	**12.43**	11.62	12.06	**11.66**	12.00

Production costs on a per BOE basis for the first nine months of 2016 decreased two 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 chemical costs, prior period processing charge recoveries from partners and more efficient produced water handling. Production costs also decreased as a result of lower freehold mineral taxes due to lower commodity prices.

Quarter over quarter, production costs on a per BOE basis increased primarily due to further reactivation costs for shut-in production and repairing down wells, as the Company temporarily went from two service rigs to six service rigs in the third quarter. Bonterra plans to use two service rigs in the fourth quarter. In Q3 2016 the Company also experienced an increase in road and lease maintenance costs from repairing damage caused by flooding in the Pembina area. The Company will continue to manage its well workover and facility maintenance programs to maximize cash netbacks and increase cash flow.

Other Income

($ 000s)	Three months ended **September 30, 2016**	June 30, 2016	September 30, 2015	Nine months ended **September 30, 2016**	September 30, 2015
Investment income	**2**	1	45	**8**	210
Administrative income	**46**	39	16	**144**	62
	48	40	61	**152**	272

The market value of the investments held by the Company at September 30, 2016 is $1,516,000 (September 30, 2015 - $7,852,000). The carrying value decreased primarily due to the sale of investments for proceeds of $10,783,000 during the first nine months of 2016. The disposition in the first nine months of 2016 resulted in a gain on sale of $3,047,000 (September 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 **September 30, 2016**	June 30, 2016	September 30, 2015	Nine months ended **September 30, 2016**	September 30, 2015
Employee compensation expense	**914**	983	912	**2,861**	2,694
Office and administrative expense	**448**	826	1,007	**2,163**	2,636
Total G&A expense	**1,362**	1,809	1,919	**5,024**	5,330
$ per BOE	**1.11**	1.62	1.59	**1.43**	1.54

The increase of $167,000 in employee compensation expense for the first nine months 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 nine months of 2016 decreased compared to the same period in 2015 due to a decrease in consulting fees, continuous disclosure fees and an increase in administration cost recoveries from reactivating shut-in wells. The decrease quarter over quarter relates primarily to bank renewal fees charged in the second quarter of 2016 and a decrease in software costs.

Finance Costs

	Three months ended			Nine months ended	
	September 30,	June 30,	September 30,	**September 30,**	September 30,
($ 000s except $ per BOE)	**2016**	2016	2015	**2016**	2015
Interest on long-term debt	**4,519**	4,181	2,948	**12,468**	7,146
Other interest	**205**	173	291	**570**	1,679
Interest expense	**4,724**	4,354	3,239	**13,038**	8,825
$ per BOE	**3.86**	3.90	2.68	**3.71**	2.55
Unwinding of the discounted value of decommissioning liabilities	**593**	675	504	**1,848**	1,364
Total finance costs	**5,317**	5,029	3,743	**14,886**	10,189

Interest on long-term debt increased $5,322,000 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 are determined quarterly by the ratio of 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 $12,500,000 subordinated promissory note from a private investor. For more information about the subordinated promissory note, refer to Note 5 of the September 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 $2,540,000.

Share-Option Compensation

	Three months ended			Nine months ended	
	September 30,	June 30,	September 30,	**September 30,**	September 30,
($ 000s)	**2016**	2016	2015	**2016**	2015
Share-option compensation	**1,558**	1,255	958	**4,062**	2,720

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 $1,342,000 from the same period a year ago due to 902,000 share-options issued in the third quarter of 2016.

Based on the outstanding options as of September 30, 2016, the Company has an unamortized expense of $5,183,000, of which $1,573,000 will be recorded for the remainder of 2016, $3,594,000 for 2017 and $16,000 thereafter. For more information about options issued and outstanding, refer to Note 9 of the September 30, 2016 condensed financial statements.

Depletion and Depreciation, Exploration and Evaluation and Goodwill

($ 000s)	Three months ended **September 30, 2016**	 June 30, 2016	 September 30, 2015	Nine months ended **September 30, 2016**	 September 30, 2015
Depletion and depreciation	**27,064**	25,965	26,586	**78,174**	75,375

Provision for depletion and depreciation increased by $2,799,000 for 2016 compared to the same period in 2015. The increase in depletion and depreciation is primarily due to a full nine months of depletion on the $173,111,000 in property, plant and equipment from the Pembina Asset acquisition in the second quarter of 2015, the 2016 capital program and an increase in the decommissioning liabilities in the first nine months 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 nine month periods ended September 30, 2016 or 2015.

Taxes

The Company recorded a total tax recovery of $5,802,000 (2015 – total tax expense of $12,172,000). 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 $3,549,000 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 a current receivable of $1,778,000. Depending on the Company’s tax position by the end of the year, the receivable would likely be collected during the second quarter of 2017.

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

Net Loss

($ 000s except $ per share)	Three months ended **September 30, 2016**	 June 30, 2016	 September 30, 2015	Nine months ended **September 30, 2016**	 September 30, 2015
Net Loss	**(5,830)**	(5,582)	(321)	**(22,967)**	(4,967)
$ per share - basic	**(0.18)**	(0.17)	(0.01)	**(0.69)**	(0.15)
$ per share - diluted	**(0.18)**	(0.17)	(0.01)	**(0.69)**	(0.15)

Net loss for the first nine months of 2016 increased by $18,000,000 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 increase in net loss was mainly due to depletion and depreciation from increased production, higher production costs to accelerate the reactivation of shut-in production to increase cash flow and increased royalties. The increase in net loss was partially offset by higher natural gas 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 $2,760,000 relating to an increase in the investments’ fair value (September 30, 2015 – unrealized loss of $5,451,000). 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

($ 000s except $ per share)	Three months ended **September 30, 2016**	June 30, 2016	September 30, 2015	Nine months ended **September 30, 2016**	September 30, 2015
Cash flow from operations	**19,219**	13,392	36,024	**43,757**	80,063
$ per share - basic	**0.58**	0.40	1.09	**1.32**	2.47
$ per share - diluted	**0.58**	0.40	1.09	**1.32**	2.47

In 2016, cash flow from operations decreased by $36,306,000 compared to 2015. This was primarily due to a decrease in revenue from oil and gas sales, asset retirement obligations settled and an increase in finance costs, partially offset by a decrease in royalties, production costs and a current income tax recovery. The quarter over quarter increase in cash flow of $5,827,000 is primarily due to an increase in production and natural gas prices, which was partially offset by an increase in production and royalty costs. The Company has been able to reduce long-term debt and its subordinated promissory note by $11,665,000 over the last two quarters, while funding its capital program and maintaining dividends to shareholders.

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 September 30, 2016 of $1,076,000 (December 31, 2015 of $962,000). Pine Cliff paid a management fee to the Company of $15,000 (September 30, 2015 - $45,000) 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 September 30, 2016, the Company had an account receivable from Pine Cliff of $64,000 (December 31, 2015 – $293,000).

As at September 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 nine months of 2016 was $186,000 (September 30, 2015 - $198,000). 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 September 30, 2016 was a ratio of 5.0 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 continue to assess its monthly dividend and capital expenditures for the remainder of 2016 on a month to month basis.

Working Capital Deficiency and Net Debt

($ 000s)	**September 30, 2016**	December 31, 2015	September 30, 2015
Woking capital deficiency	**26,361**	29,807	29,080
Long-term bank debt	**335,953**	332,471	335,863
Net Debt	**362,314**	362,278	364,943

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 remained comparable to September 2015 and December 2015, despite decreased commodity prices. This was a result of decreased capital spending, liquidating a portion of the marketable securities the Company held, production cost control and a reduction of the monthly dividend from $0.15 per share to $0.10 per share that commenced with the January 2016 dividend. In 2016 the Company repaid $12,500,000 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 $10,783,000.

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 September 30, 2016 is $24.5 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 nine months ended September 30, 2016, the Company incurred capital expenditures of $28,581,000 (September 30, 2015 - $50,114,000). The costs relate to the drilling of seventeen gross (16.0 net) Cardium operated horizontal wells and related infrastructure costs, of which eight were completed, equipped and tied-in. The Company also incurred equipment and 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 without spending any money, began an internal program that successfully brought the LMR to over 2.0.

The Company currently has an LMR rating of 2.07 and 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 September 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 September 30, 2016 totaled $335,953,000 (December 31, 2015 - $332,471,000). The interest rates for the nine month period to September 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 September 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, September 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 September 30, 2016 condensed financial statements.

Dividend Policy

For the three months ended September 30, 2016, the Company declared and paid dividends of $9,943,000 ($0.30 per share) (September 30, 2015 - $14,915,000 ($0.45 per share)). For the nine months ended September 30, 2016, the Company declared and paid dividends of $29,829,000 ($0.90 per share) (September 30, 2015 – $48,693,000 ($1.50 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 68 percent for the nine months ended September 30, 2016 (61 percent for the nine months ended September 30, 2015).

Quarterly Financial Information

	2016			2015			
For the periods ended ($ 000s except $ per share)	**Q3**	Q2	Q1	Q4	Q3	Q2	Q1
Revenue - oil and gas sales	**46,236**	41,150	33,510	44,678	52,160	57,921	42,480
Cash flow from operations	**19,219**	13,392	11,146	27,808	36,024	17,960	26,079
Net loss	**(5,830)**	(5,582)	(11,555)	(4,113)	(321)	(2,711)	(1,935)
Per share - basic	**(0.18)**	(0.17)	(0.35)	(0.13)	(0.01)	(0.08)	(0.06)
Per share - diluted	**(0.18)**	(0.17)	(0.35)	(0.13)	(0.01)	(0.08)	(0.06)

For the periods ended ($ 000s except $ per share)	2014 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 September 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 nine months ended September 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	**September 30, 2016**	December 31, 2015
Assets			
Current			
Accounts receivable		**21,883**	15,433
Crude oil inventory		**734**	868
Prepaid expenses		**4,493**	2,798
Investments		**440**	8,576
		27,550	27,675
Investment in related party		**1,076**	962
Exploration and evaluation assets		**7,871**	7,925
Property, plant and equipment	3	**1,025,602**	1,045,387
Investment tax credit receivable	8	**8,834**	8,834
Goodwill		**92,810**	92,810
		1,163,743	1,183,593
Liabilities			
Current			
Accounts payable and accrued liabilities		**29,411**	20,479
Due to related party	4	**12,000**	12,000
Subordinated promissory note	5	**12,500**	25,000
		53,911	57,479
Bank debt	6	**335,953**	332,471
Decommissioning liabilities	7	**99,983**	71,523
Deferred tax liability	8	**124,026**	126,315
		613,873	587,788
Subsequent events	11		
Shareholders' equity			
Share capital	9	**760,020**	760,020
Contributed surplus		**19,827**	15,765
Accumulated other comprehensive income		**323**	571
Retained earnings (deficit)		**(230,300)**	(180,551)
		549,870	595,805
		1,163,743	1,183,593

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF COMPREHENSIVE LOSS

For the periods ended September 30 (unaudited)		Three Months		Nine Months	
($ 000s, except $ per share)	Note	**2016**	2015	**2016**	2015
Revenue					
Oil and gas sales, net of royalties	10	**43,058**	48,461	**114,192**	142,140
Other income		**48**	61	**152**	272
		43,106	48,522	**114,344**	142,412
Expenses					
Production		**15,205**	14,570	**40,967**	41,593
Office and administration		**448**	1,007	**2,163**	2,636
Employee compensation		**914**	912	**2,861**	2,694
Finance costs		**5,317**	3,743	**14,886**	10,189
Share-option compensation	9	**1,558**	958	**4,062**	2,720
Depletion and depreciation	3	**27,064**	26,586	**78,174**	75,375
		50,506	47,776	**143,113**	135,207
Earnings (loss) before income taxes		**(7,400)**	746	**(28,769)**	7,205
Taxes					
Current income tax expense (recovery)	8	**4**	40	**(3,549)**	(355)
Deferred income tax expense (recovery)	8	**(1,574)**	1,027	**(2,253)**	12,527
		(1,570)	1,067	**(5,802)**	12,172
Net loss for the period		**(5,830)**	(321)	**(22,967)**	(4,967)
Other comprehensive income (loss)					
Unrealized gain (loss) on investments		**90**	(6,851)	**2,760**	(5,451)
Deferred taxes on unrealized (gain) loss on investments		**(12)**	925	**(372)**	691
Other comprehensive income (loss) for the period		**78**	(5,926)	**2,388**	(4,760)
Total comprehensive loss for the period		**(5,752)**	(6,247)	**(20,579)**	(9,727)
Net loss per share-basis	9	**(0.18)**	(0.01)	**(0.69)**	(0.15)
Net loss per share-diluted	9	**(0.18)**	(0.01)	**(0.69)**	(0.15)
Comprehensive loss per share-basic	9	**(0.17)**	(0.19)	**(0.62)**	(0.30)
Comprehensive loss per share-diluted	9	**(0.17)**	(0.19)	**(0.62)**	(0.30)

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF CASH FLOW

For the periods ended September 30 (unaudited)		Three months		Nine Months	
($ 000s)	Note	**2016**	2015	**2016**	2015
Operating activities					
Net loss		**(5,830)**	(321)	**(22,967)**	(4,967)
Items not affecting cash					
Deferred income taxes		**(1,574)**	1,027	**(2,253)**	12,527
Share-option compensation		**1,558**	958	**4,062**	2,720
Depletion and depreciation		**27,064**	26,586	**78,174**	75,375
Unwinding of the discount on decommissioning liabilities		**593**	504	**1,848**	1,364
Investment income		**3**	(45)	**(8)**	(210)
Interest expense		**4,724**	3,239	**13,038**	8,825
Change in non-cash working capital accounts:					
Accounts receivable		**(397)**	6,813	**(7,687)**	1,027
Crude oil inventory		**(55)**	88	**65**	401
Prepaid expenses		**(1,156)**	(436)	**(1,696)**	(2,325)
Investment tax credit receivable		**-**	-	**-**	(261)
Accounts payable and accrued liabilities		**415**	724	**(2,657)**	(5,446)
Decommissioning expenditures		**(1,402)**	126	**(3,124)**	(142)
Interest paid		**(4,724)**	(3,239)	**(13,038)**	(8,825)
Cash provided by operating activities		**19,219**	36,024	**43,757**	80,063
Financing activities					
Increase (decrease) in bank debt		**(970)**	(25,567)	**3,482**	181,140
Subordinated promissory note		**(2,500)**	(10,000)	**(12,500)**	(15,000)
Issuance of common shares of private placement		**-**	31,162	**-**	31,162
Share issue costs		**-**	(105)	**-**	(105)
Dividends		**(9,943)**	(14,915)	**(29,829)**	(48,693)
Cash provided by (used in) financing activities		**(13,413)**	(19,425)	**(38,847)**	148,504
Investing activities					
Investment income received		**(3)**	45	**8**	210
Exploration and evaluation expenditures		**-**	-	**-**	(432)
Property, plant and equipment expenditures		**(17,424)**	(14,402)	**(28,581)**	(49,682)
Proceeds on sale of property		**-**	-	**54**	-
Purchase of investments		**-**	-	**-**	(12,221)
Proceeds on sale of investments		**1,699**	-	**10,783**	6,883
Acquisition		**-**	-	**-**	(170,430)
Change in non-cash working capital accounts:					
Accounts payable and accrued liabilities		**9,592**	(3,068)	**11,589**	(4,698)
Accounts receivable		**330**	826	**1,237**	1,803
Cash used in investing activities		**(5,806)**	(16,599)	**(4,910)**	(228,567)
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)
($ 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			2,720			2,720
Share issuances, private placement	973,812	31,162				31,162
Share issue costs, net of tax		(76)				(76)
Comprehensive loss				(4,760)	(4,967)	(9,727)
Transfer on realized gain on investments				(1,546)	1,546	-
Deferred taxes on realized gain on investments				209		209
Dividends					(48,693)	(48,693)
September 30, 2015	33,143,435	760,020	14,215	(2,273)	(161,169)	610,793
Share-option compensation			1,550			1,550
Comprehensive income (loss)				2,537	(4,113)	(1,576)
Transfer on realized loss on investments				355	(355)	-
Deferred taxes on realized loss on investments				(48)		(48)
Dividends					(14,914)	(14,914)
December 31, 2015	33,143,435	760,020	15,765	571	(180,551)	595,805
Share-option compensation			4,062			4,062
Comprehensive income (loss)				2,388	(22,967)	(20,579)
Transfer on realized gain on investments				(3,047)	3,047	-
Deferred taxes on realized gain on investments				411		411
Dividends					(29,829)	(29,829)
September 30, 2016	33,143,435	760,020	19,827	323	(230,300)	549,870

(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 September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016, and September 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 November 9, 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	22,189	6,372	20	28,581
Adjustment to decommissioning liabilities	29,736	-	-	29,736
Balance at September 30, 2016	**1,274,608**	**309,153**	**2,073**	**1,585,834**

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	(66,235)	(11,875)	(64)	(78,174)
Disposal and other	72	-	-	72
Balance at September 30, 2016	**(456,648)**	**(101,991)**	**(1,593)**	**(560,232)**

Carrying amounts as at: **($ 000s)**				
December 31, 2015	832,198	212,665	524	1,045,387
September 30, 2016	**817,960**	**207,162**	**480**	**1,025,602**

(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 nine months ended September 30, 2016 and 2015.

4. TRANSACTIONS WITH RELATED PARTIES

As at September 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 nine months of 2016 was $186,000 (September 30, 2015 - $198,000).

The Company received a management fee of $15,000 plus the reimbursement of certain administrative expenses for the nine months ended September 30, 2016 (September 30, 2015 - $45,000) 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 September 30, 2016, the Company had an account receivable from Pine Cliff of $64,000 (December 31, 2015 - $293,000).

5. SUBORDINATED PROMISSORY NOTE

As at September 30, 2016, Bonterra had $12,500,000 (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 five percent and is repayable after thirty days' written notice by either party. Security consists of a floating demand debenture 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 nine months was $383,000 (September 30, 2015 - $785,000). The Company repaid $10,000,000 on January 22, 2016. On July 27, 2016 the Company repaid $2,500,000 and increased the interest rate to five percent annually from three 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 September 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 September 30, 2016 were $335,953,000 (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. On October 26, 2016, the Company successfully renewed its available lending limit at $380,000,000.

The amount available for borrowing under the credit facilities is reduced by outstanding letters of credit. Letters of credit totaling $2,990,000 were issued as at September 30, 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 $380,000,000 in consolidated debt (excluding accounts payable and accrued liabilities). As at September 30, 2016 consolidated debt is $360,453,000.
- 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 42 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 September 30, 2016, the Company is in compliance with all covenants.

7. DECOMMISSIONING LIABILITIES

At September 30, 2016, the estimated total undiscounted amount required to settle the decommissioning liabilities was $262,190,000 (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 2.32 percent (December 31, 2015 – 2.9 percent).

($ 000s)	
Decommissioning liabilities, December 31, 2015	**71,523**
Adjustment to decommissioning liabilities[1]	29,736
Liabilities settled during the period	(3,124)
Unwinding of the discount on decommissioning liabilities	1,848
Decommissioning liabilities, September 30, 2016	**99,983**

(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	97,741
Eligible capital expenditures	7	2,287
Share issue costs	20	1,464
Canadian oil and gas property expenditures	10	167,504
Canadian development expenditures	30	170,284
Canadian exploration expenditures	100	8,063
Federal income tax losses carried forward[1]	100	50,443
Provincial income tax losses carried forward[2]	100	14,620
		512,406

(1) Federal income tax losses carried forward expire in the following years; 2035 - $18,433,000; 2036 - $32,010,000.
(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 $64,435,000 (December 31, 2015 - $67,691,000) of capital losses carried forward which can only be claimed against taxable capital gains.

The $3,549,000 current tax recovery for 2016 is comprised of provincial income tax losses that were carried back to recover prior provincial income tax paid. The Company has received payment of $1,771,000 with $1,778,000 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, September 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 nine months ended is as follows:

	Three Months		Nine Months	
	September 30, 2016	September 30, 2015	**September 30, 2016**	September 30, 2015
Basic shares outstanding	**33,143,435**	33,069,341	**33,143,435**	32,472,825
Dilutive effect of share options[1]	**143,708**	-	**41,549**	-
Diluted shares outstanding	**33,287,143**	33,069,341	**33,184,984**	32,472,825

(1) The Company did not include 2,163,000 share options for the three months ended September 30, 2016 (September 30, 2015 – 2,458,000) and 2,163,000 share options for the nine months ended September 30, 2016 (September 30, 2015 – 2,458,000) in the dilutive effect of share options calculation as these share options were anti-dilutive.

For the three months ended September 30, 2016, the Company declared and paid dividends of $9,943,000 ($0.30 per share) (September 30, 2015 - $14,915,000 ($0.45 per share)). For the nine months ended September 30, 2016, the Company declared and paid dividends of $29,829,000 ($0.90 per share) (September 30, 2015 – $48,693,000 ($1.50 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 September 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	935,000	$25.50
Options forfeited	(152,500)	$43.16
Options expired	(760,000)	$58.77
Balance, September 30 2016	2,978,000	$30.77

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

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding at September 30, 2016	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at September 30, 2016	Weighted-average exercise price
$ 17.00 - $ 30.00	1,717,000	1.5 years	$23.20	-	$ -
30.01 - 45.00	904,000	1.0 years	34.55	8,000	32.00
45.01 - 65.00	357,000	0.7 years	57.59	174,000	57.38
$ 17.00 - $ 65.00	2,978,000	1.3 years	$30.77	182,000	$56.27

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 935,000 stock options with an estimated fair value of $5,040,000 or $5.39 per option using the Black-Scholes option pricing model with the following key assumptions:

	September 30, 2016
Weighted-average risk free interest rate (%)[1]	**0.58**
Expected life (years)	**1.0**
Weighted-average volatility (%)[2]	**59.91**
Forfeiture rate (%)	**8.62**
Weighted average dividend yield (%)	**4.73**

(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		Nine Months	
($ 000s)	**September 30, 2016**	September 30, 2015	**September 30, 2016**	September 30, 2015
Oil and gas sales	**46,236**	52,160	**120,896**	152,561
Less:				
Crown royalties	**(2,219)**	(2,398)	**(3,966)**	(6,106)
Freehold, gross overriding royalties and other	**(959)**	(1,301)	**(2,738)**	(4,315)
Oil and gas sales, net of royalties	**43,058**	48,461	**114,192**	142,140

11. SUBSEQUENT EVENTS

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

Date declared	Record date	$ per share	Date payable
October 3, 2016	October 14, 2016	0.10	October 31, 2016
November 1, 2016	November 15, 2016	0.10	November 30, 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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