For the Six Months ended June 30, 2017

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BONTERRA ENERGY REPORTS SECOND QUARTER AND SIX MONTHS ENDED JUNE 30, 2017 FINANCIAL AND OPERATING RESULTS

HIGHLIGHTS

As at and for the periods ended ($ 000s except for $ per share and $ per BOE)		Three months ended **June 30, 2017**	Three months ended June 30, 2016	Six months ended **June 30, 2017**	Six months ended June 30, 2016
FINANCIAL					
Revenue - realized oil and gas sales [1]		**52,695**	41,150	**102,025**	74,660
Funds flow [1]		**28,508**	29,765	**53,751**	46,137
Per share - basic and diluted		**0.86**	0.90	**1.61**	1.39
Dividend payout ratio		**35%**	33%	**37%**	43%
Cash flow from operations		**27,370**	13,392	**51,910**	24,538
Per share - basic and diluted		**0.82**	0.40	**1.56**	0.74
Dividend payout ratio		**37%**	75%	**38%**	81%
Cash dividends per share		**0.30**	0.30	**0.60**	0.60
Net earnings (loss)		**2,978**	(5,582)	**3,453**	(17,137)
Per share - basic and diluted		**0.09**	(0.17)	**0.10**	(0.52)
Capital expenditures, net of dispositions		**19,416**	9,420	**49,545**	11,103
Total assets				**1,173,936**	1,169,782
Working capital deficiency				**29,759**	18,429
Long-term debt				**341,070**	336,923
Shareholders' equity				**529,844**	564,075
OPERATIONS					
Oil	-barrels per day	**8,287**	7,780	**7,912**	8,052
	-average price ($ per barrel)	**58.27**	51.64	**59.39**	44.24
NGLs	-barrels per day	**843**	877	**828**	861
	-average price ($ per barrel)	**27.48**	20.79	**29.19**	17.81
Natural gas	- MCF per day	**24,138**	21,771	**23,196**	22,022
	- average price ($ per MCF)	**3.03**	1.48	**3.00**	1.75
Total barrels of oil equivalent per day (BOE) [2]		**13,153**	12,285	**12,606**	12,584

(1) 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.

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

Report to Shareholders

It has been another quarter of continued overall challenges for the oil and natural gas industry. Oil and natural gas prices continue to be low and operating costs are trending upward. Notwithstanding the challenges, Bonterra remains focused on managing its business to ensure both short and long term sustainability to the benefit of the shareholders.

Despite the industry challenges, Bonterra continued to advance its operations and take steps to improve its financial position through the period. Bonterra continues to have:

- One of the lowest cost structures in the industry as its overall costs for royalties, operating costs, general and administration and debt interest are approximately Cdn $20.00 per BOE.
- One of the lowest annual decline rates of approximately 20 percent.
- A large inventory of economic undrilled well locations.

Bonterra's highlights for the second quarter and first half of 2017 include:

- Generated positive net earnings of $3.0 million ($0.09 per share) in Q2 and $3.5 million ($0.10 per share) for the first half of 2017, compared to losses realized for the same periods in 2016.
- Production volumes increased in Q2 2017 to 13,153 BOE per day compared to 12,053 BOE per day in Q1 2017 and 12,285 BOE per day in Q2 2016.
- Increased cash flow from operations in Q2 2017 to $27.4 million ($0.82 per share) compared to $24.5 million ($0.74 per share) in Q1 2017 and $13.4 million ($0.40 per share) in Q2 2016. For the first half of 2017, Bonterra generated $51.9 million ($1.56 per share) compared to $24.5 million ($0.74 per share) for the first half of 2016.

Outlook

During the first quarter of 2017, Bonterra experienced scheduling delays with pumping service providers which resulted in new production from wells drilled during Q1 2017 being placed on production in Q2 2017. As a result of these delays, the Company's first half 2017 production averaged 12,606 BOE per day. Due to the uncertainty in the commodity price environment, the Company has elected to adjust its annual 2017 capital budget to $65 million, which is slightly lower than the $70 million previously planned. Due to the production delays experienced in Q1 2017 and a slightly reduced capital program, the Company forecasts that production will average between 13,000 and 13,200 BOE per day for the second half of 2017. As such, the Company's annual average production is expected to be approximately 12,900 BOE per day compared to Bonterra's 2017 annual guidance range of 13,000 to 13,500 BOE per day. Bonterra has considerable flexibility in its capital program and may resume drilling if commodity prices improve later in the year.

Cash flow projections for the next twelve months (second half of 2017 and first half of 2018) are estimated to be approximately $120 million (based on $50 WTI for oil; $3.00 per MCF of natural gas which includes a $0.30 premium for higher heat content and a $0.75 Cdn/U.S. dollar exchange rate). This level of cash flow is expected to enable Bonterra to continue its $0.10 per share monthly dividend, grow production volumes modestly and to reduce debt.

The Company continues to review and assess various options that could potentially reduce overall net debt to achieve a net debt to cash flow ratio of approximately 2.5 to 1 during periods of low commodity prices and between 1 and 1.5 to 1 during periods of high commodity prices. Bonterra is committed, in a responsible manner, to continue apportioning its cash flow towards debt repayment, capital expenditures and the payment of dividends.

Thank you once again for your continued support.

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

Management's Discussion and Analysis

The following report dated August 9, 2017 is a review of the operations and current financial position for the six months ended June 30, 2017 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, 2016 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. The Company calculates net debt as long-term debt plus working capital deficiency (current liabilities less current assets).

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

	2017		2016			
As at and for the periods ended ($ 000s except $ per share)	**Q2**	Q1	Q4	Q3	Q2	Q1
Financial						
Revenue - oil and gas sales	**52,695**	49,330	48,967	46,236	41,150	33,510
Cash flow from operations	**27,370**	24,540	31,537	19,219	13,392	11,146
Per share - basic and diluted	**0.82**	0.74	0.94	0.58	0.40	0.34
Dividend payout ratio	**37%**	41%	32%	52%	75%	89%
Cash dividends per share	**0.30**	0.30	0.30	0.30	0.30	0.30
Net earnings (loss)	**2,978**	475	(1,168)	(5,830)	(5,582)	(11,555)
Per share - basic and diluted	**0.09**	0.01	(0.03)	(0.18)	(0.17)	(0.35)
Capital expenditures, net of dispositions	**19,416**	30,129	12,270	17,424	9,420	1,683
Total assets	**1,173,936**	1,156,398	1,147,834	1,163,743	1,169,782	1,174,141
Working capital deficiency	**29,759**	39,483	24,921	26,361	18,429	13,115
Long-term debt	**341,070**	330,118	329,204	335,953	336,923	345,118
Shareholders' equity	**529,844**	535,742	543,824	549,870	564,075	575,925
Operations						
Oil (barrels per day)	**8,287**	7,533	7,467	8,197	7,780	8,325
NGLs (barrels per day)	**843**	813	911	942	877	845
Natural gas (MCF per day)	**24,138**	22,243	22,540	24,948	21,771	22,274
Total BOE per day	**13,153**	12,053	12,134	13,298	12,285	12,882

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

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, differentials 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 also outlined in detail in the following table.

	Q2-2017	Q1-2017	Q4-2016	Q3-2016	Q2-2016	Q1-2016	Q4-2015	Q3-2015
Crude oil								
WTI (U.S.$/bbl)	**48.28**	51.91	49.29	44.94	45.59	33.45	42.18	46.43
WTI to MSW Stream Index Differential (U.S.$/bbl)[1]	**(2.26)**	(3.60)	(3.09)	(3.02)	(3.14)	(3.78)	(2.51)	(3.45)
Foreign exchange								
U.S.$ to Cdn$	**1.3447**	1.3230	1.3339	1.3051	1.2886	1.3748	1.3353	1.3094
Bonterra average realized oil price (Cdn$/bbl)	**58.27**	60.63	58.02	51.80	51.64	37.33	49.50	53.26
Natural gas								
AECO (Cdn$/mcf)	**2.77**	2.68	3.08	2.31	1.39	1.82	2.45	2.89
Bonterra average realized gas price (Cdn$/mcf)	**3.03**	2.97	3.32	2.47	1.48	2.02	2.61	3.36

(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 or factors, 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 US dollar;
- Access to markets;
- Weather; and
- Timing and duration of plant, refinery and pipeline maintenance.

Global and local supply and demand imbalances have placed continued pressure on oil, natural gas and liquids pricing throughout 2015, 2016, and into 2017 resulting in commodity price volatility. WTI benchmark pricing which had been steadily increasing from the low of $30.62 US per bbl in February of 2016 to over $50.00 US per barrel in December 2016 and into Q1 2017, retracted somewhat in Q2 2017. This retracement has been attributed to persistently high crude and product inventories particularly in the United States. Recently these inventories have moved downward. This may be attributed to supply and demand coming into better balance because of an agreement in 2016 amongst OPEC members and other global suppliers to limit production. A sustained reduction in inventories may be somewhat offset from increased shale production in the U.S. Recently, several export pipeline projects were approved including TransMountain Pipeline, Enbridge Line 3 Expansion, Keystone XL and Dakota Access. Completion of any of these projects would have a positive effect on the movement and pricing of Canadian barrels.

The AECO benchmark price for natural gas has continued to improve compared to the multi-year lows experienced in 2016. The increase in the AECO benchmark price is a result of pipeline restrictions that limited supply out of northwestern Alberta, strong export demand to the U.S. and increased demand within Alberta.

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 2017 (1)

Impact on cash flow	Change ($)	$000s	$ per share (2)
Realized crude oil price ($/bbl)	1.00	2,827	0.08
Realized natural gas price ($/mcf)	0.10	889	0.03
U.S.$ to Canadian $ exchange rate	0.01	349	0.01

(1) This analysis uses current royalty rates, annualized estimated average production of 13,250 BOE per day and no changes in working capital
(2) Based on annualized basic weighted average shares outstanding of 33,309,578

Business Overview, Strategy and Key Performance Drivers

Bonterra's second quarter results improved compared to the first quarter of 2017 primarily due to an increase in production volumes from sixteen new operated wells being placed on production versus only five operated wells in the first quarter of 2017. As a result Bonterra increased its production in the second quarter by 1,100 BOE per day to 13,153 BOE per day, even with 421 BOE per day being shut-in due to pipeline restrictions, non-operated facility turnarounds and wet weather conditions.

The Company averaged 12,606 BOE per day for the first six months of 2017. During the first quarter of 2017, Bonterra experienced scheduling delays with pumping service providers which resulted in bringing on new production from wells drilled in Q1 2017 into Q2 2017. Due to the softening of lower than anticipated commodity prices during Q2 2017, and their continued volatility, the Company has also elected to defer its Q3 2017 drilling program until the latter part of August. In addition, Bonterra has reduced its annual capital spending budget to approximately $65 million from its prior guidance of $70 million. Due to the aforementioned production delays, the deferral of the Q3 2017 drilling program until later in August, and the reduced capital program, the Company forecasts that production through the second half of 2017 will average approximately 13,000 to 13,200 BOE per day, which is expected to result in annual production of approximately 12,900 BOE per day compared to Bonterra's original 2017 guidance between 13,000 to 13,500 BOE per day.

During the first six months of 2017, Bonterra invested approximately $12 million towards infrastructure and other capital and $38 million to drill 21 gross operated (19.5 net) horizontal wells and complete and tie-in 21 gross (18.1 net) wells (of which three (1.7 net) wells were drilled in 2016, but not completed until 2017). The Company had budgeted for the completion and tying-in of 14 gross (11.2 net) horizontal wells for the first quarter, but only managed five horizontal wells due to the procurement and scheduling challenges with pumping service providers. Bonterra was able to maintain its capital program for the first six months of the year due to the concentrated infrastructure in the Pembina field that allowed the Company the unique ability to drill and complete wells during spring road bans. By adjusting the timing of easily accessible drill locations to coincide with spring break up, the Company was able to continue drilling, completing and tying in new production throughout the spring.

On April 19, 2017, the Company successfully renewed its bank facilities. These credit facilities are comprised of a $330 million syndicated revolving credit facility and a $50 million non-syndicated revolving credit facility for total facilities of $380 million. The terms and conditions are similar with the exception of extending the revolving period to April 30, 2018 and a maturity date of April 30, 2019, subject to a semi-annual review. As at June 30, 2017, Bonterra had $341 million drawn on the $380 million credit facility. These credit facilities continue to provide the Company with sufficient liquidity and financial flexibility to execute its business plan. With Bonterra executing approximately 77 percent of its revised annual budgeted capital program in the first six months of the year, combined with delays in tying-in production in the first quarter until the second quarter, the Company increased its long-term bank debt by $11 million from March 31, 2017. However with the additional cash flow from the increased production in the second quarter, the Company was able to maintain net debt levels (long-term debt plus working capital deficiency) comparable to the end of the first quarter. With the increased production for the last six months of 2017 compared to the first six months of the year and lower level of capital to invest under the remaining budget, Bonterra intends to reduce debt through the remainder of the year.

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

Drilling

	Three months ended						Six months ended			
	June 30, 2017		March 31, 2017		June 30, 2016		**June 30, 2017**		June 30, 2016	
	Gross[(1)]	**Net[(2)]**	Gross[(1)]	Net[(2)]	Gross[(1)]	Net[(2)]	**Gross[(1)]**	**Net[(2)]**	Gross[(1)]	Net[(2)]
Crude oil horizontal-operated	**8**	**8.0**	13	11.5	4	3.3	**21**	**19.5**	6	5.3
Crude oil horizontal-non-operated	**4**	**1.1**	2	0.4	-	-	**6**	**1.5**	-	-
Total	**12**	**9.1**	15	11.9	4	3.3	**27**	**21.0**	6	5.3
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 2017, the Company placed three gross (1.7 net) wells on production that were drilled in the later part of 2016. In addition, the Company drilled 21 gross (19.5 net) wells, of which 18 were put on production during the first half of 2017. The remaining three wells were brought on production in July 2017.

Also six gross (1.5 net) non-operated wells were drilled and completed during the first six months of 2017, of which two (0.4 net) were put on production. The remaining four wells are expected to be on production in Q3 2017.

Production

	Three months ended			Six months ended	
	June 30, 2017	March 31, 2017	June 30, 2016	**June 30, 2017**	June 30, 2016
Crude oil (barrels per day)	**8,287**	7,533	7,780	**7,912**	8,052
NGLs (barrels per day)	**843**	813	877	**828**	861
Natural gas (MCF per day)	**24,138**	22,243	21,771	**23,196**	22,022
Average BOE per day	**13,153**	12,053	12,285	**12,606**	12,584

Production volumes for the first six months of 2017 were comparable to the first six months of 2016. During the first six months, the Company spent approximately 77 percent of its revised annual capital budget but the majority of the associated production was deferred until the second quarter of 2017 as a result of delays in procuring pumping services. During the second quarter, production increased 1,100 BOE per day or nine percent compared to the first quarter of 2017. An additional 421 BOE per day was shut-in during the second quarter due to pipeline restrictions, non-operated facility turnarounds and wet weather conditions. The increase in production quarter over quarter was a result of sixteen operated wells being placed on production in the second quarter versus five operated wells in the first quarter of 2017.

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, 2017**	March 31, 2017	June 30, 2016	**June 30, 2017**	June 30, 2016
Production volumes (BOE)	**1,196,897**	1,084,812	1,117,954	**2,281,708**	2,290,231
Gross production revenue	**44.03**	45.47	36.81	**44.71**	32.60
Royalties	**(3.06)**	(3.14)	(0.95)	**(3.10)**	(1.54)
Production costs	**(12.27)**	(13.48)	(11.62)	**(12.85)**	(11.25)
Field netback	**28.70**	28.85	24.24	**28.76**	19.81
General and administrative	**(1.60)**	(1.95)	(1.62)	**(1.77)**	(1.60)
Interest and other	**(3.26)**	(3.63)	(3.86)	**(3.44)**	(3.59)
Cash netback	**23.84**	23.27	18.76	**23.55**	14.62

Cash netbacks have increased in the first six months of 2017 compared to the same period in 2016 primarily due to increased commodity prices. This increase was partially offset by increased royalties, production and general and administrative costs. The increase in quarter over quarter cash netbacks was primarily a result of a decrease in production and general and administrative costs, partially offset by a decrease in crude oil prices.

Oil and Gas Sales

	Three months ended			Six months ended	
	June 30, 2017	March 31, 2017	June 30, 2016	**June 30, 2017**	June 30, 2016
Revenue - oil and gas sales ($ 000s)	**52,695**	49,330	41,150	**102,025**	74,660
Average realized prices:					
Crude oil ($ per barrel)	**58.27**	60.63	51.64	**59.39**	44.24
NGLs ($ per barrel)	**27.48**	31.00	20.79	**29.19**	17.81
Natural gas ($ per MCF)	**3.03**	2.97	1.48	**3.00**	1.75
Average ($ per BOE)	**44.03**	45.47	36.81	**44.71**	32.60
Average BOE per day	**13,153**	12,053	12,285	**12,606**	12,584

Revenue from oil and gas sales for the first six months of 2017 increased by $27,365,000 in 2017, or 37 percent, compared to the same period a year ago. This increase was primarily due to a rise in commodity prices on a per BOE basis. The quarter over quarter increase in oil and gas sales was primarily due to an increase in production.

The Company's product split on a revenue basis for 2017 is approximately 88 percent weighted towards crude oil and NGLs.

Royalties

	Three months ended			Six months ended	
	June 30,	March 31,	June 30,	**June 30,**	June 30,
($ 000s)	**2017**	2017	2016	**2017**	2016
Crown royalties	**2,611**	2,355	489	**4,966**	1,747
Freehold, gross overriding and other royalties	**1,048**	1,052	572	**2,100**	1,779
Total royalties	**3,659**	3,407	1,061	**7,066**	3,526
Crown royalties - percentage of revenue	**5.0**	4.8	1.2	**4.9**	2.3
Freehold, gross overriding and other royalties - percentage of revenue	**2.0**	2.1	1.4	**2.1**	2.4
Royalties - percentage of revenue	**7.0**	6.9	2.6	**7.0**	4.7
Royalties $ per BOE	**3.06**	3.14	0.95	**3.10**	1.54

Royalties paid by the Company consist of crown royalties to the Provinces of Alberta, Saskatchewan and British Columbia and non-crown royalties. Total royalties on a per BOE basis increased by $1.56 per BOE or doubled for the first six months of 2017 compared to the same period in 2016, primarily due to higher commodity prices. Quarter over quarter royalties on a per BOE basis decreased primarily due to a decrease in commodity prices.

In 2016, the provincial government of Alberta announced the key highlights of the Modernized Royalty Framework ("MRF") that came into effect on January 1, 2017. Based on currently expected commodity price ranges, the Company anticipates that the MRF will not have a material impact on Bonterra's overall results of operations on a go forward basis.

Production Costs

	Three months ended			Six months ended	
	June 30,	March 31,	June 30,	**June 30,**	June 30,
($ 000s except $ per BOE)	**2017**	2017	2016	**2017**	2016
Production costs	**14,694**	14,625	12,991	**29,319**	25,762
$ per BOE	**12.27**	13.48	11.62	**12.85**	11.25

Production costs for the first six months of 2017 increased by $1.60 per BOE compared to the first six months of 2016. The increase was mainly due to facility and well maintenance occurring as required in the first half of 2017 compared to delaying most of the maintenance programs into the third quarter of 2016 mainly due to extremely depressed crude oil prices in the first quarter of 2016. In addition freehold mineral taxes have increased by $600,000 primarily due to an increase in commodity prices.

Quarter over quarter, absolute production costs remained relatively flat but on a per BOE basis decreased primarily due to costs allocated over higher production volumes as the Company experienced fewer delays with tying-in new production in the second quarter. 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 June 30, 2017	March 31, 2017	June 30, 2016	Six months ended June 30, 2017	June 30, 2016
Investment income	**16**	7	1	**23**	6
Administrative income	**56**	48	39	**104**	98
	72	55	40	**127**	104

The market value of the investments held by the Company at June 30, 2017 was $1,078,000 (June 30, 2016 - $3,123,000). The carrying value decreased primarily due to the sale of investments for proceeds of $10,783,000 during the second and third quarter of 2016. The disposition resulted in a gain on sale of $nil (June 30, 2016 - $3,552,000) which was recorded as an equity transfer between accumulated other comprehensive income and retained earnings.

The Company receives administrative income for various oil and gas administrative services and production equipment rentals.

General and Administration (G&A) Expense

($ 000s except $ per BOE)	Three months ended June 30, 2017	March 31, 2017	June 30, 2016	Six months ended June 30, 2017	June 30, 2016
Employee compensation expense	**1,058**	1,511	983	**2,569**	1,947
Office and administrative expense	**860**	606	826	**1,466**	1,715
Total G&A expense	**1,918**	2,117	1,809	**4,035**	3,662
$ per BOE	**1.60**	1.95	1.62	**1.77**	1.60

The increase of $622,000 in employee compensation expense for the first six months of 2017 compared to the same period in 2016 is primarily due to a one-time bonus to staff and consultants in lieu of compensation increases over the past two years. 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 corporate performance clearly aligns the interests of the employees with those of shareholders.

Office and administration expense for the first six months of 2017 decreased compared to the same period in 2016 due to a decrease in consulting fees, continuous disclosure fees, lower banking renewal fees and more overhead recoveries resulting from fewer wells being shut-in compared to the first half of 2016. The quarter over quarter increase in office and administrative expense is primarily due to an increase in the allowance for doubtful accounts, software, consulting fees and less overhead recoveries for Q2 2017.

Finance Costs

($ 000s except $ per BOE)	Three months ended June 30, 2017	March 31, 2017	June 30, 2016	Six months ended June 30, 2017	June 30, 2016
Interest on long-term debt	**3,759**	3,777	4,181	**7,536**	7,949
Other interest	**217**	216	173	**433**	365
Interest expense	**3,976**	3,993	4,354	**7,969**	8,314
$ per BOE	**3.32**	3.68	3.90	**3.49**	3.63
Unwinding of the discounted value	**748**	741	675	**1,489**	1,255
Total finance costs	**4,724**	4,734	5,029	**9,458**	9,569

Interest on long-term debt decreased from the first six months of 2017 compared to the first six months of 2016 as the Company had a lower average outstanding bank debt and lower interest rates due to a lower net debt to EBITDA ratio. Interest rates are determined quarterly for the subsequent quarter 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 June 30, 2017 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 $2,577,000.

Share-Option Compensation

	Three months ended			Six months ended	
($ 000s)	**June 30, 2017**	March 31, 2017	June 30, 2016	**June 30, 2017**	June 30, 2016
Share-option compensation	**1,239**	1,639	1,255	**2,878**	2,504

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 $374,000 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 June 30, 2017, the Company has an unamortized expense of $1,234,000, of which $928,000 will be recorded for the remainder of 2017 and $306,000 thereafter. For more information about options issued and outstanding, refer to Note 9 of the June 30, 2017 condensed financial statements.

Depletion and Depreciation, Exploration and Evaluation (E&E) and Goodwill

	Three months ended			Six months ended	
($ 000s)	**June 30, 2017**	March 31, 2017	June 30, 2016	**June 30, 2017**	June 30, 2016
Depletion and depreciation	**22,535**	21,543	25,965	**44,078**	51,110

Provision for depletion and depreciation decreased by $7,032,000 for the first six months of 2017 compared to the same period in 2016. The decrease in depletion and depreciation is primarily due to delays completing wells in the first quarter that resulted in lower production volumes and an increase in estimated reserves, partially offset by increases in capital from Bonterra's drilling program and the decommissioning liabilities from a decrease in the risk-free interest rate. There was no impairment provision recorded for the three and six months ended June 30, 2017 and 2016.

Taxes

The Company recorded a total tax expense of $1,865,000 (2016 – total tax recovery of $4,232,000). The increase in the total tax expense is due to an increase in net earnings before income taxes in the first half of 2017 and provincial tax loss carryback for taxes paid in prior periods. The Company has a current receivable of $1,776,000 for a provincial loss carryback and the receivable is expected to be collected in the third quarter.

For additional information regarding income taxes, see Note 8 of the June 30, 2017 condensed financial statements.

Net Earnings (Loss)

	Three months ended			Six months ended	
($ 000s except $ per share)	**June 30, 2017**	March 31, 2017	June 30, 2016	**June 30, 2017**	June 30, 2016
Net earnings (Loss)	**2,978**	475	(5,582)	**3,453**	(17,137)
$ per share - basic	**0.09**	0.01	(0.17)	**0.10**	(0.52)
$ per share - diluted	**0.09**	0.01	(0.17)	**0.10**	(0.52)

Net earnings for the first six months of 2017 increased by $20,590,000 compared to the first six months of 2016. The increase in net earnings was mainly due to increased commodity prices and a decrease in depletion and depreciation. The increase in net earnings was partially offset by an increase in royalties and production costs, in addition to a deferred income tax recovery in 2016.

The quarter over quarter increase in net earnings was mainly due to an increase in production stemming from drilling success under Bonterra's capital program.

Other Comprehensive Income (Loss)

Other comprehensive income for 2017 consists of an unrealized loss before tax on investments (including investment in a related party) of $543,000 relating to a decrease in the investments' fair value (June 30, 2016 – unrealized gain of $2,670,000). 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, 2017**	March 31, 2017	June 30, 2016	**June 30, 2017**	June 30, 2016
Cash flow from operations	**27,370**	24,540	13,392	**51,910**	24,538
$ per share - basic	**0.82**	0.74	0.40	**1.56**	0.74
$ per share - diluted	**0.82**	0.73	0.40	**1.56**	0.74

In the first half of 2017, cash flow from operations increased by $27,372,000 compared to the first half of 2016. This was primarily due to an increase in revenue from oil and gas sales and an increase in non-cash-working capital. The quarter over quarter increase in cash flow of $2,830,000 is primarily due to an increase in production.

Related Party Transactions

Bonterra holds 1,034,523 (December 31, 2016 – 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, 2017 of $797,000 (December 31, 2016 of $1,169,000). Pine Cliff paid a management fee to the Company of $nil (June 30, 2016 - $15,000) plus the reimbursement of certain administrative expenses. Services provided by the Company include mainly executive and marketing services. All services performed are charged at estimated fair value. On April 1, 2016, the management agreement was terminated. As at June 30, 2017, the Company had an account receivable from Pine Cliff of $32,000 (December 31, 2016 – $51,000).

As at June 30, 2017, the Company's CEO, Chairman of the Board and major a shareholder has loaned the Company $12,000,000 (December 31, 2016 - $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 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. Interest paid on this loan for the first six months of 2017 was $123,000 (June 30, 2016 - $124,000). 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 overall debt while managing its cash flow, capital expenditures and dividend payments. The Company's net debt to twelve month trailing cash flow ratio as of June 30, 2017 was 3.6 to 1 times (versus 4.7 to 1 times at December 31, 2016). The decrease in net debt to cash flow from December 31, 2016 is mainly due to a better commodity environment for the first six months of 2017 compared to the same period in 2016. To manage its bank debt, Bonterra continues to review its capital expenditures during this volatile commodity price environment and has maintained the monthly dividend payments at $0.10 per common share. The Company will continue to assess its cash flow, dividend and capital expenditures on a quarterly basis.

Working Capital Deficiency and Net Debt

($ 000s)	**June 30, 2017**	March 31, 2017	December 31, 2016	June 30, 2016
Working capital deficiency	**29,759**	39,483	24,921	18,429
Long-term bank debt	**341,070**	330,118	329,204	336,923
Net Debt	**370,829**	369,601	354,125	355,352

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 for June 30, 2017 increased by $16,704,000 from December 2016 due to approximately $30 million of a total $50 million of capital expenditures occurring in Q1 2017 but with a delay of primarily all related production volumes into Q2 2017. Increased revenue from higher commodity prices was offset by increased capital spending and maintenance costs in the first half of 2017 which led to increased debt. Net debt is expected to decrease as the Company spent approximately 77 percent of its revised annual capital budget for the year, leaving approximately $15 million that may be spent for the remainder of 2017 depending on commodity prices.

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, 2017 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 six months ended June 30, 2017, the Company incurred capital expenditures of $49,545,000 (June 30, 2016 - $11,157,000), approximately 77 percent of the revised annual budgeted capital expenditures for 2017. The costs primarily relate to the drilling of 21 gross (19.5 net) Cardium operated horizontal wells with related infrastructure costs and six gross (1.5 net) Cardium non-operated wells, of which twenty were completed, equipped and tied-in. The remaining three operated wells were drilled in the second quarter but were completed and placed on production early in the third quarter and the four non-operated wells are expected to be on production in the third quarter as well. The Company also incurred equipment and tie-in costs related to three gross (1.7 net) Cardium operated wells that were drilled and completed in 2016.

Liability Management Ratio ("LMR") Update

The Company currently has an LMR rating of 2.0 and does not expect that with its current LMR there will be any impediments to completing 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, 2017, the Company has bank facilities consisting of a $330,000,000 (December 31, 2016 - $330,000,000) syndicated revolving credit facility and a $50,000,000 (December 31, 2016 - $50,000,000) non-syndicated revolving credit facility, for total credit facilities of $380,000,000. Amounts drawn under these credit facilities at June 30, 2017 totaled $341,070,000 (December 31, 2016 - $329,204,000). The interest rates for the six month period ended June 30, 2017 on the Company's Canadian prime rate loan and Banker's

Acceptances are between four to six percent. The loan is revolving to April 30, 2018 with a maturity date of April 30, 2019, 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 mainly on the lender's interpretation of the Company's reserves, future commodity prices and costs.

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, 2017 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, December 31, 2016	**33,302,435**	**763,788**
Issued pursuant to the Company's share option plan	**8,361**	**143**
Transfer from contributed surplus to share capital		**46**
Balance, June 30, 2017	**33,310,796**	**763,977**

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 3,331,080 (December 31, 2016 – 3,330,244) 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, 2017 condensed financial statements.

Dividend Policy

For the three months ended June 30, 2017, the Company declared and paid dividends of $9,993,000 ($0.30 per share) (June 30, 2016 – $9,943,000 ($0.30 per share)). For the six months ended June 30, 2017 the Company declared and paid dividends of $19,985,000 ($0.60 per share)(June 30, 2016 – $19,886,000 ($0.60 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 with a combination of sustainable growth and meaningful dividend income.

Bonterra's dividends to its shareholders are funded by a portion of 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 with consideration to its liquidity and 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 38 percent for the six months ended June 30, 2017 (81 percent for the six months ended June 30, 2016).

Quarterly Financial Information

For the periods ended ($ 000s except $ per share)	**2017** Q2	Q1	2016 Q4	Q3	Q2	Q1
Revenue - oil and gas sales	**52,695**	49,330	48,967	46,236	41,150	33,510
Cash flow from operations	**27,370**	24,540	31,537	19,219	13,392	11,146
Net earnings (loss)	**2,978**	475	(1,168)	(5,830)	(5,582)	(11,555)
Per share - basic	**0.09**	0.01	(0.03)	(0.18)	(0.17)	(0.35)
Per share - diluted	**0.09**	0.01	(0.03)	(0.18)	(0.17)	(0.35)

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

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, production, G&A and finance costs. In the first and second quarters of 2016, net earnings and cash flow are lower than most other periods due to a significant decrease in commodity prices.

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, 2017 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, 2017.

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, 2017**	December 31, 2016
Assets			
Current			
Accounts receivable		**21,003**	20,774
Crude oil inventory		**589**	1,060
Prepaid expenses		**5,088**	2,529
Investments		**281**	452
		26,961	24,815
Investment in related party		**797**	1,169
Exploration and evaluation assets		**7,073**	7,073
Property, plant and equipment	3	**1,037,461**	1,013,133
Investment tax credit receivable	8	**8,834**	8,834
Goodwill		**92,810**	92,810
		1,173,936	1,147,834
Liabilities			
Current			
Accounts payable and accrued liabilities		**32,220**	25,236
Due to related party	4	**12,000**	12,000
Subordinated promissory note	5	**12,500**	12,500
		56,720	49,736
Bank debt	6	**341,070**	329,204
Decommissioning liabilities	7	**120,393**	100,941
Deferred tax liability		**125,909**	124,129
		644,092	604,010
Subsequent events	11		
Shareholders' equity			
Share capital	9	**763,977**	763,788
Contributed surplus		**23,900**	21,068
Accumulated other comprehensive income (loss)		**(55)**	414
Retained earnings (deficit)		**(257,978)**	(241,446)
		529,844	543,824
		1,173,936	1,147,834

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

For the periods ended June 30 (unaudited)		Three Months		Six Months	
($ 000s, except $ per share)	Note	**2017**	2016	**2017**	2016
Revenue					
Oil and gas sales, net of royalties	10	**49,036**	40,089	**94,959**	71,134
Other income		**72**	40	**127**	104
		49,108	40,129	**95,086**	71,238
Expenses					
Production		**14,694**	12,991	**29,319**	25,762
Office and administration		**860**	826	**1,466**	1,715
Employee compensation		**1,058**	983	**2,569**	1,947
Finance costs		**4,724**	5,029	**9,458**	9,569
Share-option compensation	9	**1,239**	1,255	**2,878**	2,504
Depletion and depreciation	3	**22,535**	25,965	**44,078**	51,110
		45,110	47,049	**89,768**	92,607
Earnings (loss) before income taxes		**3,998**	(6,920)	**5,318**	(21,369)
Taxes					
Current income tax expense (recovery)	8	**12**	(274)	**12**	(3,553)
Deferred income tax expense (recovery)	8	**1,008**	(1,064)	**1,853**	(679)
		1,020	(1,338)	**1,865**	(4,232)
Net earnings (loss) for the period		**2,978**	(5,582)	**3,453**	(17,137)
Other comprehensive income (loss)					
Unrealized gain (loss) on investments		**(142)**	2,317	**(543)**	2,670
Deferred taxes on unrealized (gain) loss on investments		**20**	(312)	**74**	(360)
Other comprehensive income (loss) for the period		**(122)**	2,005	**(469)**	2,310
Total comprehensive income (loss) for the period		**2,856**	(3,577)	**2,984**	(14,827)
Net earnings (loss) per share - basic and diluted	9	**0.09**	(0.17)	**0.10**	(0.52)
Comprehensive income (loss) per share - basic and diluted	9	**0.09**	(0.11)	**0.09**	(0.45)

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	**2017**	2016	**2017**	2016
Operating activities					
Net earnings (loss)		**2,978**	(5,582)	**3,453**	(17,137)
Items not affecting cash					
Deferred income taxes		**1,008**	(1,064)	**1,853**	(679)
Share-option compensation		**1,239**	1,255	**2,878**	2,504
Depletion and depreciation		**22,535**	25,965	**44,078**	51,110
Unwinding of the discount on decommissioning liabilities		**748**	675	**1,489**	1,255
Investment income		**(16)**	(6)	**(23)**	(11)
Interest expense		**3,976**	4,355	**7,969**	8,315
Change in non-cash working capital accounts:					
Accounts receivable		**1,365**	(4,247)	**(474)**	(7,290)
Crude oil inventory		**(10)**	81	**165**	120
Prepaid expenses		**(3,035)**	(1,088)	**(2,559)**	(540)
Accounts payable and accrued liabilities		**801**	(1,575)	**1,641**	(3,072)
Decommissioning expenditures		**(243)**	(1,022)	**(591)**	(1,722)
Interest paid		**(3,976)**	(4,355)	**(7,969)**	(8,315)
Cash provided by operating activities		**27,370**	13,392	**51,910**	24,538
Financing activities					
Increase (repayment) in bank debt		**10,952**	(8,195)	**11,866**	4,452
Subordinated promissory note		**-**	-	**-**	(10,000)
Stock option proceeds		**-**	-	**143**	-
Dividends		**(9,993)**	(9,943)	**(19,985)**	(19,886)
Cash provided by (used in) financing activities		**959**	(18,138)	**(7,976)**	(25,434)
Investing activities					
Investment income received		**16**	6	**23**	11
Property, plant and equipment expenditures	3	**(19,416)**	(9,474)	**(49,545)**	(11,157)
Proceeds on sale of property		**-**	54	**-**	54
Proceeds on sale of investments		**-**	8,516	**-**	9,084
Change in non-cash working capital accounts:					
Accounts payable and accrued liabilities		**(8,071)**	6,093	**5,343**	1,997
Accounts receivable		**(858)**	(449)	**245**	907
Cash provided by (used in) investing activities		**(28,329)**	4,746	**(43,934)**	896
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 common 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, 2016	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
Share-option compensation			3,314			3,314
Exercise of options	159,000	3,253				3,253
Transfer to share capital on exercise of options		515	(515)			-
Comprehensive income (loss)				169	(6,998)	(6,829)
Transfer on realized loss on investments				505	(505)	-
Deferred taxes on realized loss on investments				(68)		(68)
Dividends					(19,921)	(19,921)
December 31, 2016	33,302,435	763,788	21,068	414	(241,446)	543,824
Share-option compensation			2,878			2,878
Exercise of options	8,361	143				143
Transfer to share capital on exercise of options		46	(46)			-
Comprehensive income (loss)				(469)	3,453	2,984
Dividends					(19,985)	(19,985)
June 30, 2017	33,310,796	763,977	23,900	(55)	(257,978)	529,844

(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, 2017 and December 31, 2016 and for the three and six months ended June 30, 2017 and June 30, 2016 (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 9, 2017.

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 2016 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 2016 audited annual financial statements, which has been prepared in accordance with International Financial Reporting Standards (IFRS).

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, 2016	1,280,953	315,039	2,082	1,598,074
Additions	35,814	13,448	283	49,545
Adjustment to decommissioning liabilities [1]	18,554	-	-	18,554
Balance at June 30, 2017	**1,335,321**	**328,487**	**2,365**	**1,666,173**

Accumulated depletion and depreciation ($ 000s)	**Oil and gas properties**	**Production facilities**	**Furniture fixtures & other equipment**	**Total property plant & equipment**
Balance at December 31, 2016	(476,418)	(106,909)	(1,614)	(584,941)
Depletion and depreciation	(35,886)	(8,152)	(40)	(44,078)
Other	-	-	307	307
Balance at June 30, 2017	**(512,304)**	**(115,061)**	**(1,347)**	**(628,712)**

Carrying amounts as at: ($ 000s)				
December 31, 2016	804,535	208,130	468	1,013,133
June 30, 2017	**823,017**	**213,426**	**1,018**	**1,037,461**

[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 income for the six months ended June 30, 2017 and 2016.

4. TRANSACTIONS WITH RELATED PARTIES

As at June 30, 2017, the Company's CEO, Chairman of the Board and a major shareholder has loaned the Company $12,000,000 (December 31, 2016 - $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 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. Interest paid on this loan during the first six months of 2017 was $123,000 (June 30, 2016 - $124,000).

The Company received a management fee of $nil plus the reimbursement of certain administrative expenses for the six months ended June 30, 2017 (June 30, 2016 - $15,000) 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, 2017, the Company had an account receivable from Pine Cliff of $32,000 (December 31, 2016 - $51,000).

5. SUBORDINATED PROMISSORY NOTE

As at June 30, 2017, Bonterra had $12,500,000 (December 31, 2016 - $12,500,000) 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 six months was $310,000 (June 30, 2016 - $242,000).

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

6. BANK DEBT

As at June 30, 2017, the Company has bank facilities consisting of a $330,000,000 (December 31, 2016 - $330,000,000) syndicated revolving credit facility and a $50,000,000 (December 31, 2016 - $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, 2017 were $341,070,000 (December 31, 2016 - $329,204,000). 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 provide that the loan is revolving to April 30, 2018, with a maturity date of April 30, 2019, 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 $2,990,000 were issued as at June 30, 2017 (December 31, 2016 - $2,990,000). Security for credit facilities consists of various and floating demand debentures totaling $750,000,000 (December 31, 2016 - $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, 2017 consolidated debt is $365,570,000.
- 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 38 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, 2017, the Company is in compliance with all covenants.

7. DECOMMISSIONING LIABILITIES

At June 30, 2017, the estimated total undiscounted amount required to settle the decommissioning liabilities was $317,202,000 (December 31, 2016- $312,436,000). The provision has been calculated assuming a 2.0 percent inflation rate (December 31, 2016 – 2.0 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 2.51 percent (December 31, 2016 – 2.95 percent).

($ 000s)	
Decommissioning liabilities, December 31, 2016	**100,941**
Adjustment to decommissioning liabilities [1]	**18,554**
Liabilities settled during the period	**(591)**
Unwinding of the discount on decommissioning liabilities	**1,489**
Decommissioning liabilities, June 30, 2017	**120,393**

(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	96,504
Eligible capital expenditures	7	2,167
Share issue costs	20	575
Canadian oil and gas property expenditures	10	154,985
Canadian development expenditures	30	166,296
Canadian exploration expenditures	100	8,063
Federal income tax losses carried forward [1]	100	50,915
Provincial income tax losses carried forward [2]	100	15,078
		494,583

(1) Federal income tax losses carried forward expire in the following years; 2035 - $14,927,000; 2036 - $35,988,000.
(2) Provincial income tax losses carried forward expire in 2036.

The Company has $8,834,000 (December 31, 2016 - $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, 2016 - $64,435,000) of capital losses carried forward which can only be claimed against taxable capital gains.

Included in accounts receivable is $1,776,000 current tax recovery for provincial income tax losses that were carried back to recover prior provincial income tax paid.

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, December 31, 2016	**33,302,435**	**763,788**
Issued pursuant to the Company's share option plan	**8,361**	**143**
Transfer from contributed surplus to share capital		**46**
Balance, June 30, 2017	**33,310,796**	**763,977**

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 six months ended June 30 is as follows:

	Three Months		Six Months	
	June 30, 2017	June 30, 2016	**June 30, 2017**	June 30, 2016
Basic shares outstanding	**33,310,796**	33,143,435	**33,308,340**	33,143,435
Dilutive effect of share options [1]	**733**	124,258	**31,720**	644
Diluted shares outstanding	**33,311,529**	33,267,693	**33,340,060**	33,144,079

(1) The Company did not included 2,588,00 share options for the three months ended June 30, 2017 (June 30, 2016 – 1,899,500) and 1,982,000 share options for the six months ended June 30, 2017 (June 30, 2016 2,706,500) in the dilutive effect of share options calculations as these share options were anti-dilutive.

For the three months ended June 30, 2017, the Company declared and paid dividends of $9,993,000 ($0.30 per share) (June 30, 2016 - $9,943,000 ($0.30 per share)). For the six months ended June 30, 2016 the company declared and paid dividends of $19,985,000 ($0.60 per share)(June 30, 2016 $19,886,000 ($0.60 per share))

The Company provides an equity settled option plan for its directors, officers, employees and consultants. Under the plan, the Company may grant options for up to 3,331,080 (December 31, 2016 – 3,330,244) 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, 2017, and changes during the period ended on those dates is presented below:

	Number of options	Weighted average exercise price
At January 1, 2017	2,737,000	$30.50
Options granted	138,000	19.33
Options exercised[1]	(14,000)	20.46
Options forfeited	(110,000)	28.59
Options expired	(152,000)	55.07
At June 30, 2017	2,599,000	$28.61

(1) 7,000 options were exercised under the cashless option method, which resulted in 1,361 shares being issued in which the Company received no proceeds.

The following table summarizes information about options outstanding at June 30, 2017:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding at June 30, 2017	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at June 30, 2017	Weighted-average exercise price
\$ 17.00 - \$ 30.00	1,622,000	1.0 years	\$ 23.15	595,000	\$ 20.40
30.01 - 45.00	846,000	0.3 years	34.57	821,000	34.58
45.01 - 65.00	131,000	0.5 years	57.63	86,000	57.60
\$ 17.00 - \$ 65.00	2,599,000	0.7 years	\$ 28.61	1,502,000	\$ 30.28

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. During the six month period ended June 30, 2017, the Company granted 138,000 stock options with an estimated fair value of $534,000 or $3.87 per option using the Black-Scholes option pricing model with the following key assumptions:

	June 30, 2017
Weighted-average risk free interest rate (%)[1]	**0.75**
Weighted-average expected life (years)	**2.0**
Weighted-average volatility (%)[2]	**48.78**
Forfeiture rate (%)	**7.80**
Weighted average dividend yield (%)	**6.33**

(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, 2017**	June 30, 2016	**June 30, 2017**	June 30, 2016
Oil and gas sales	**52,695**	41,150	**102,025**	74,660
Less:				
Crown royalties	**(2,611)**	(489)	**(4,966)**	(1,747)
Freehold, gross overriding royalties and other	**(1,048)**	(572)	**(2,100)**	(1,779)
Oil and gas sales, net of royalties	**49,036**	40,089	**94,959**	71,134

11. SUBSEQUENT EVENTS

Subsequent to June 30, 2017, the Company declared the following dividends:

Date declared	Record date	$ per share	Date payable
July 4, 2017	July 14, 2017	0.10	July 31, 2017
August 1, 2017	August 15, 2017	0.10	August 31, 2017

Corporate Information

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

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, Senior VP, 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
The Toronto Dominion Bank
Alberta Treasury Branches
Business Development Bank of Canada

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