For the Three Months ended March 31, 2017

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BONTERRA ENERGY REPORTS FIRST QUARTER 2017 FINANCIAL AND OPERATING RESULTS

HIGHLIGHTS

As at and for the three months ended ($000s except $ per share)		**March 31, 2017**	December 31, 2016	March 31, 2016
FINANCIAL				
Revenue - realized oil and gas sales		**49,330**	48,967	33,510
Funds flow (1)		**25,243**	26,658	16,372
Per share - basic		**0.76**	0.80	0.49
Per share - diluted		**0.76**	0.80	0.49
Dividend payout ratio		**40%**	37%	61%
Cash flow from operations		**24,540**	31,537	11,146
Per share - basic		**0.74**	0.94	0.34
Per share - diluted		**0.73**	0.94	0.34
Dividend payout ratio		**41%**	32%	89%
Cash dividends per share		**0.30**	0.30	0.30
Net earnings (loss)		**475**	(1,168)	(11,555)
Per share - basic and diluted		**0.01**	(0.03)	(0.35)
Capital expenditures, net of disposition		**30,129**	12,270	1,683
Total assets		**1,156,398**	1,147,834	1,174,141
Working Capital deficiency		**39,483**	24,921	13,115
Long-term debt		**330,118**	329,204	345,118
Shareholders' equity		**535,742**	543,824	575,925
OPERATIONS				
Oil	-bbl per day	**7,533**	7,467	8,325
	-average price ($ per bbl)	**60.63**	58.02	37.33
NGLs	-bbl per day	**813**	911	845
	-average price ($ per bbl)	**31.00**	26.64	14.72
Natural gas	-MCF per day	**22,243**	22,540	22,274
	-average price ($ per MCF)	**2.97**	3.32	2.02
Total barrels of oil equivalent per day (BOE)(2)		**12,053**	12,134	12,882

(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

Bonterra Energy Corp. ("Bonterra" or the "Company") is pleased to report its financial and operating results for the three months ended March 31, 2017.

Commodity prices strengthened through the first quarter and WTI averaged US $51.91 per barrel, a significant improvement from the US $33.45 per barrel average in Q1 2016. The stronger oil price environment contributed to improved funds flow for Bonterra and contributed to attractive economics. The reduction in production volumes in Q1 2017 from the previous quarter is mainly due to completing wells in Q2 2017 which were drilled in Q1 2017. Wells were initially scheduled to be completed by service companies commencing in early February and into March. The delays by the service companies resulted in production not coming on stream until April. We anticipate that seventeen wells will be brought on production in Q2 2017.

The Board of Directors and management will continue to monitor the usage of funds flow on a quarterly basis and determine whether excess funds flow will be directed to the repayment of debt, increase in capital spending or asset acquisitions, increase in the monthly dividend or to buy back Bonterra shares. Initially, excess funds flow will be applied to reduce debt and, after repayment of approximately $100 million, decisions will be made with regard to excess funds flow for other purposes.

First Quarter 2017 Highlights:

- Funds flow for the quarter totaled $25.2 million, or $0.76 per share, and with the $0.30 per share cash dividend paid to shareholders, the payout ratio was 40 percent;
- Averaged 12,053 BOE per day of production during the quarter, which was lower than budgeted due to challenges accessing services, but average production for the month of April has increased to approximately 13,100 BOE per day following the completion of 11 wells throughout April 2017;
- Invested $30 million in capital during the first quarter to drill 13 (11.5 net) operated wells and complete and tie-in five (3.7 net) wells by the end of March (of which three wells were drilled in 2016, but not completed until 2017), and the remaining 11 wells were completed and on-stream in April with an additional six wells to be drilled and completed throughout the remainder of Q2 2017;
- Continued to focus on being a low-cost producer in the face of inflationary cost pressure due to rising industry activity:
    - Achieved all in corporate costs (including royalties, production, general and administrative and interest) of $22.20 per BOE, which is competitive amongst its peers, the increased production volumes should result in lower overall costs per BOE in Q2 2017;
    - Production costs increased to $13.48 per BOE in Q1 2017 from $10.89 per BOE in Q1 2016 and $12.12 per BOE in the previous quarter due to delays tying-in new production volumes until the second quarter of 2017; and
- Completed Bonterra's annual borrowing base review in April 2017 which resulted in a renewal of the credit facilities at $380 million with no change to terms or conditions.

To date in the second quarter, oil prices have remained in the US $50 per barrel level mainly due to the number of unknown worldwide factors such as: 1) reductions in inventory levels, 2) the potential for OPEC to extend production cut-backs, 3) the increase in U.S. shale production in light of the significant declines typical of these wells, and 4) whether there is sufficient funding available worldwide to maintain the capital expenditures required to replace the global annual decline estimated at approximately six percent.

Outlook

As a result of the field activities and progress made to date in 2017, Bonterra expects to meet its annual production guidance of 13,000 to 13,500 BOE per day (actual annual average 2016 – 12,650 BOE per day) with a capital program of $70 million, the majority of which will be invested in the first and second quarters. Bonterra's 2017 capital budget was designed to achieve a five percent growth in volumes and maintain a balance between funds flow and capital spending plus dividends, assuming US $55 WTI, AECO $3.10 per MCF and CDN/US dollar foreign exchange rate of $0.74. Based on these assumptions, Bonterra forecasts annual funds flow of approximately $145 million, which would generate an estimated $35 million in free cash flow for debt repayment assuming a monthly dividend of $0.10 per share, or up to $50 million assuming an incremental $15 million from other sources, mainly option exercises. The Company continues to pursue its sustainable growth strategy and will seek to reduce debt and manage its dividend in a responsible manner. Adjustments to this strategy will likely be made if oil prices continue to average below US $50 WTI.

With a very low production decline rate and a large inventory of economic undrilled locations, Bonterra will continue to focus on being a low-cost, oil-weighted producer that is driven to enhance operational efficiencies, exercise financial discipline and generate optimal returns for shareholders.
The Company thanks its 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 May 10, 2017 is a review of the operations and current financial position for the three months ended March 31, 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)	**Q1**	Q4	Q3	Q2	Q1
Financial					
Revenue - oil and gas sales	**49,330**	48,967	46,236	41,150	33,510
Cash flow from operations	**24,540**	31,537	19,219	13,392	11,146
Per share - basic and diluted	**0.74**	0.94	0.58	0.40	0.34
Dividend payout ratio	**41%**	32%	52%	75%	89%
Cash dividends per share	**0.30**	0.30	0.30	0.30	0.30
Net earnings (loss)	**475**	(1,168)	(5,830)	(5,582)	(11,555)
Per share - basic and diluted	**0.01**	(0.03)	(0.18)	(0.17)	(0.35)
Capital expenditures, net of dispositions	**30,129**	12,270	17,424	9,420	1,683
Total assets	**1,156,398**	1,147,834	1,163,743	1,169,782	1,174,141
Working capital deficiency	**39,483**	24,921	26,361	18,429	13,115
Long-term debt	**330,118**	329,204	335,953	336,923	345,118
Shareholders' equity	**535,742**	543,824	549,870	564,075	575,925
Operations					
Oil (barrels per day)	**7,533**	7,467	8,197	7,780	8,325
NGLs (barrels per day)	**813**	911	942	877	845
Natural gas (MCF per day)	**22,243**	22,540	24,948	21,771	22,274
Total BOE per day	**12,053**	12,134	13,298	12,285	12,882

	2015			
As at and for the periods ended				
($ 000s except $ per share)	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 explained in detail in the following table.

	Q1-2017	Q4-2016	Q3-2016	Q2-2016	Q1-2016	Q4-2015	Q3-2015	Q2-2015
Crude oil								
WTI (U.S.$/bbl)	**51.91**	49.29	44.94	45.59	33.45	42.18	46.43	57.94
WTI to MSW Stream Index								
Differential (U.S.$/bbl)[1]	**(3.60)**	(3.09)	(3.02)	(3.14)	(3.78)	(2.51)	(3.45)	(2.93)
Foreign exchange								
U.S.$ to Cdn$	**1.323**	1.3339	1.3051	1.2886	1.3748	1.3353	1.3094	1.2294
Bonterra average realized								
oil price (Cdn$/bbl)	**60.63**	58.02	51.80	51.64	37.33	49.50	53.26	64.27
Natural gas								
AECO (Cdn$/mcf)	**2.68**	3.08	2.31	1.39	1.82	2.45	2.89	2.64
Bonterra average realized								
gas price (Cdn$/mcf)	**2.97**	3.32	2.47	1.48	2.02	2.61	3.36	2.83

(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 increased 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. The price increase 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. This anticipated reduction in global oil supply may somewhat be 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 a reduction in supply due to decreased drilling activity, pipeline restrictions that limited flow out of northwestern Alberta, increased export demand to the U.S. and increased demand within Alberta. Continuing changes in production, inventories and global supply and demand makes it difficult to predict future commodity pricing with any certainty.

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 ($/bbl)	1.00	2,691	0.08
Realized natural gas price ($/mcf)	0.10	825	0.02
U.S.$ to Canadian $ exchange rate	0.01	332	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

During the first quarter, Bonterra continued to focus on the development of its high quality, oil-weighted assets in the Pembina Cardium in Alberta. The Company benefitted from a higher commodity price environment compared to the same quarter in 2016 and the previous quarter, but with higher pricing led to increased drilling activity and demand for completion services across the industry. This tight supply-demand balance for services caused delays in the timing of Bonterra's first quarter capital program, leading to production coming on-stream early in the second quarter despite the majority of the capital being incurred in the first quarter. As a result, the Company's first quarter production averaged 12,053 BOE per day, which is below budget of 12,600 BOE per day. Completion and production dates for eleven wells were delayed from the first quarter to April. The production for the month of April 2017 averaged 13,100 BOE per day.

Bonterra invested $30 million in capital during the first quarter of 2017 which was primarily directed to drilling 13 gross operated (11.5 net) horizontal wells and completing and tying-in 5 gross (3.7 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. With concentrated infrastructure in the Pembina field Bonterra was able to plan a significant portion of its capital program to drill and complete wells during spring road bans where other entities across western Canada in less accessible areas could not. By adjusting the timing of easily accessible drill locations to coincide with spring break up, the Company faces less demand for pumping services and by aggregating its completion activities also reduces costs typically associated with mobilization. With the new production volumes that came on stream in April, procurement of completion services and the Company's annual capital budget of approximately $70 million, Bonterra expects to maintain its previous 2017 production guidance range between 13,000 and 13,500 BOE per day.

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. 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 March 31, 2017, Bonterra had $330 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. Bonterra intends to continue repaying debt through 2017.

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

Drilling

	Three months ended					
		March 31, 2017		December 31, 2016		March 31, 2016
	Gross[(1)]	**Net[(2)]**	Gross[(1)]	Net[(2)]	Gross[(1)]	Net[(2)]
Crude oil horizontal-operated	**13**	**11.5**	4	2.7	2	2.0
Crude oil horizontal-non-operated	**2**	**0.4**	2	0.1	-	-
Total	**15**	**11.9**	6	2.8	2	2.0
Success rate		**100%**		100%		100%

(1) "Gross" wells means the number of wells in which Bonterra has a working interest.

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

During the first quarter of 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 13 gross (11.5 net) wells, of which 2 were put on production during the quarter. The remaining eleven wells were brought on production in April 2017.

Also two gross (0.4 net) non-operated wells were drilled and completed during the first quarter. These wells were also on production early in Q2 2017.

Production

	Three months ended		
	March 31, 2017	December 31, 2016	March 31, 2016
Crude oil (barrels per day)	**7,533**	7,467	8,325
NGLs (barrels per day)	**813**	911	845
Natural gas (MCF per day)	**22,243**	22,540	22,274
Average BOE per day	**12,053**	12,134	12,882

Production volumes decreased during the first three months of 2017 by 829 BOE per day compared to the first three months of 2016. Production was down due to fewer wells being placed on production in the quarter compared to last year due to delays on procuring pumping services. In addition 250 BOE per day was shut in due to freeze offs and non-operated facility turnarounds. The issues with procuring pumping services and these shut-in production issues have been resolved in the second quarter.

Production for Q1 2017 compared to Q4 2016 decreased primarily due to only five wells being placed on production in the current quarter versus ten wells in the last quarter of 2016.

Cash Netback

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

	Three months ended		
$ per BOE	**March 31, 2017**	December 31, 2016	March 31, 2016
Production volumes (BOE)	**1,084,812**	1,116,357	1,172,277
Gross production revenue	**45.47**	43.86	28.59
Royalties	**(3.14)**	(2.76)	(2.10)
Production costs	**(13.48)**	(12.12)	(10.89)
Field netback	**28.85**	28.98	15.60
General and administrative	**(1.95)**	(1.18)	(1.58)
Interest and other	**(3.63)**	(3.92)	(3.32)
Cash netback	**23.27**	23.88	10.70

Cash netbacks have increased in the first three months of 2017 compared to the same period in 2016 primarily due to increased commodity prices. This increase was partially offset by increased royalties and production and general and administrative costs. The decrease in quarter over quarter cash netbacks was primarily a result of an increase in production and general and administrative costs and decreased production volumes. The Company expects, with eleven wells being placed on production early in the second quarter and increased production volumes, these costs will be reduced on a per unit basis.

Oil and Gas Sales

	Three months ended		
	March 31, 2017	December 31, 2016	March 31, 2016
Revenue - oil and gas sales ($ 000s)	**49,330**	48,967	33,510
Average realized prices:			
Crude oil ($ per barrel)	**60.63**	58.02	37.33
NGLs ($ per barrel)	**31.00**	26.64	14.72
Natural gas ($ per MCF)	**2.97**	3.32	2.02
Average ($ per BOE)	**45.47**	43.86	28.59
Average BOE per day	**12,053**	12,134	12,882

Revenue from oil and gas sales for the first quarter of 2017 increased by $15,820,000 in 2017, or 47 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, which was partially offset by lower production volumes. The quarter over quarter increase in oil and gas sales was primarily due to an increase in oil and NGL prices.

The Company's product split on a revenue basis for 2016 is approximately 88 percent weighted towards crude oil and NGLs.

Royalties

($ 000s)	**March 31, 2017**	Three months ended December 31, 2016	March 31, 2016
Crown royalties	**2,355**	1,951	1,258
Freehold, gross overriding and other royalties	**1,052**	1,126	1,207
Total royalties	**3,407**	3,077	2,465
Crown royalties - percentage of revenue	**4.8**	4.0	3.8
Freehold, gross overriding and other royalties - percentage of revenue	**2.1**	2.3	3.6
Royalties - percentage of revenue	**6.9**	6.3	7.4
Royalties $ per BOE	**3.14**	2.76	2.10

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 increased by $1.04 per BOE or 50 percent for Q1 2017 compared to Q1 2016, primarily due to higher commodity prices. Quarter over quarter royalties on a per BOE basis increased primarily due to an increase 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 only have a minor impact on Bonterra's overall results of operations on a go forward basis.

Production Costs

($ 000s except $ per BOE)	**March 31, 2017**	Three months ended December 31, 2016	March 31, 2016
Production costs	**14,625**	13,536	12,771
$ per BOE	**13.48**	12.12	10.89

Production costs for the first three months of 2017 increased by $2.59 per BOE compared to Q1 2016. The increase in production costs on a BOE basis was due to delays in tying-in new production volumes until the second quarter of 2017. In addition, the Company temporarily contracted a third service rig to reactivate water injectors in order to reduce water handling costs in maintaining one of its water flood programs. In Q1 2016 Bonterra delayed most of its well maintenance programs to the second quarter of 2016 due to extremely depressed crude oil prices.

Quarter over quarter, production costs on a per BOE basis increased primarily due to lower production volumes and increased service rig costs. The Company will continue to manage its well workover and facility maintenance programs to maximize cash netbacks and increase cash flow.

Other Income

($ 000s)	**March 31, 2017**	Three months ended December 31, 2016	March 31, 2016
Investment income	**7**	10	5
Administrative income	**48**	70	59
Gain on sale of property	**-**	1	-
	55	81	64

The market value of the investments held by the Company at March 31, 2017 is $1,219,000 (March 31, 2016 - $9,321,000). 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 (March 31, 2016 - $472,000) 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 or production equipment rentals.

General and Administration (G&A) Expense

	Three months ended		
	March 31,	December 31,	March 31,
($ 000s except $ per BOE)	**2017**	2016	2016
Employee compensation expense	**1,511**	894	964
Office and administrative expense	**606**	421	889
Total G&A expense	**2,117**	1,315	1,853
$ per BOE	**1.95**	1.18	1.58

The increase of $547,000 in employee compensation expense for the first three months of 2017 compared to the same period in 2016 is 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 the performance of the Company clearly aligns the interests of the employees with those of shareholders.

Office and administration expense for Q1 2017 decreased compared to Q1 2016 due to a decrease in consulting fees, continuous disclosure fees, lower banking renewal fees and more overhead recoveries with fewer wells shut-in compared to Q1 2016. The quarter over quarter increase in office and administrative expense is primarily due to a reduction in the allowance for doubtful accounts in Q4 2016 and an increase in consulting fees for Q1 2017.

Finance Costs

	Three months ended		
	March 31,	December 31,	March 31,
($ 000s except $ per BOE)	**2017**	2016	2016
Interest on long-term debt	**3,777**	4,240	3,768
Other interest	**216**	219	192
Interest expense	**3,993**	4,459	3,960
$ per BOE	**3.68**	3.99	3.38
Unwinding of the discounted value of decommissioning liabilities	**741**	659	580
Total finance costs	**4,734**	5,118	4,540

Interest on long-term debt remained relatively unchanged from Q1 2017 compared to Q1 2016 as the Company decreased the outstanding bank debt by $15 million from March 31, 2016, offset by higher interest rates in subsequent quarters due to a higher 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 March 31, 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 $2,500,000.

Share-Option Compensation

	Three months ended		
	March 31,	December 31,	March 31,
($ 000s)	**2017**	2016	2016
Share-option compensation	**1,639**	1,756	1,249

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 $390,000 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 March 31, 2017, the Company has an unamortized expense of $2,144,000, of which $2,069,000 will be recorded for the remainder of 2017 and $75,000 thereafter. For more information about options issued and outstanding, refer to Note 8 of the March 31, 2017 condensed financial statements.

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

	Three months ended		
	March 31,	December 31,	March 31,
($ 000s)	**2017**	2016	2016
Depletion and depreciation	**21,543**	22,818	25,145
Impairment of oil and gas assets	-	2,505	**-**

Provision for depletion and depreciation decreased by $3,602,000 for the first three months of 2017 compared to the same period in 2016. The decrease in depletion and depreciation is primarily due to decreased production levels and capital spent in the first quarter not being depleted until the second quarter.

On December 31, 2016, the Company recorded a $799,000 impairment charge to E&E expenditures and $1,706,000 to Property, Plant and Equipment (PPE) for a total impairment charge of $2,505,000 all related to its non-core British Columbia gas properties. The impairment charged to the British Columbia properties relates to reduced forecasted gas prices and increased future estimated operating costs of eleven percent in Q4 2016. There was no impairment provision recorded for the three months ended March 31, 2017 and 2016.

Taxes

The Company recorded a total tax expense of $845,000 (2016 – total tax recovery of $2,894,000). The increase in the total tax expense is due to an increase in net earnings before income taxes in Q1 2017 and provincial tax loss carryback for taxes paid in prior periods. The Company has a current receivable of $1,776,000 for the provincial loss carryback and the receivable is expected to be collected in the second quarter.

For additional information regarding income taxes, see Note 7 of the March 31, 2017 condensed financial statements.

Net Earnings (Loss)

	Three months ended		
	March 31,	December 31,	March 31,
($ 000s except $ per share)	**2017**	2016	2016
Net earnings (Loss)	**475**	(1,168)	(11,555)
$ per share - basic	**0.01**	(0.03)	(0.36)
$ per share - diluted	**0.01**	(0.03)	(0.36)

Net earnings for the first three months of 2017 increased by $12,030,000 compared to the first three 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 a decrease in production, an increase in royalties and production costs, in addition to a deferred income tax recovery in Q1 2016.

The quarter over quarter increase in net earnings was mainly due to increased commodity prices, a decrease in depletion and depreciation and an impairment charge in the fourth quarter, which was partially offset by reduced production volumes, an increase in production costs and a lower deferred income tax recovery.

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 $401,000 relating to an increase in the investments' fair value (March 31, 2016 – unrealized gain of $353,000). 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		
	March 31,	December 31,	March 31,
($ 000s except $ per share)	**2017**	2016	2016
Cash flow from operations	**24,540**	31,537	11,146
$ per share - basic	**0.74**	0.94	0.34
$ per share - diluted	**0.73**	0.94	0.34

In Q1 2017, cash flow from operations increased by $13,394,000 compared to Q1 2016. This was primarily due to an increase in revenue from oil and gas sales. The quarter over quarter decrease in cash flow of $6,997,000 is primarily due to an increase in production costs and a decrease in non-cash working capital. The Company has been able to maintain long-term debt, due to related party and its subordinated promissory note at approximately $355 million, while funding its capital program and maintaining dividends to shareholders.

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 March 31, 2017 of $ 848,000 (December 31, 2016 of $1,169,000). Pine Cliff paid a management fee to the Company of nil (March 31, 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 March 31, 2017, the Company had an account receivable from Pine Cliff of $63,000 (December 31, 2016 – $51,000).

As at March 31, 2017, the Company's CEO, Chairman of the Board and major shareholder has 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 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 three months of 2017 was $61,000 (March 31, 2016 - $62,000). 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 a twelve month trailing cash flow ratio as of March 31, 2017 was a ratio of 4.2 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 in the first quarter of this year compared to Q1 2016. To manage its bank debt Bonterra has limited its planned capital expenditures during this volatile commodity price environment and has not increased the monthly dividend payments from $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)	**March 31, 2017**	December 31, 2016	March 31, 2016
Woking capital deficiency	**39,483**	24,921	13,115
Long-term bank debt	**330,118**	329,204	345,118
Net Debt	**369,601**	354,125	358,233

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 March 31, 2017 increased by $15,476,000 from December 2016 due to $30 million of capital expenditures in Q1 2017 and the delay of related production volumes into Q2 2017. Increased revenue from higher commodity prices was offset by increased capital spending and maintenance costs towards the end of the quarter which lead to increased debt over decreased production. Production and cash flow are expected to increase as eleven of the thirteen wells drilled in Q1 2017 were placed on production early in the second quarter.

Working capital is calculated as current liabilities less current assets. The Company finances its working capital deficiency using cash flow from operations, its long-term bank facility, share issuances, option exercises and sale of non-core assets and investments. Included in the working capital deficiency at March 31, 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 three months ended March 31, 2017, the Company incurred capital expenditures of $30,129,000 (March 31, 2016 - $1,683,000). The costs relate to the drilling of 13 gross (11.5 net) Cardium operated horizontal wells with related infrastructure costs and two gross (0.4 net) Cardium non-operated wells, of which two were completed, equipped and tied-in. The remaining eleven operated wells were drilled in the quarter but were completed and placed on production early in the second quarter and the two non-operated wells are expected to be on production in the second 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 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 March 31, 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 March 31, 2017 totaled $330,118,000 (December 31, 2016 - $329,204,000). The interest rates for the year ended December 31, 2016 on the Company’s Canadian prime rate loan and Banker’s Acceptances averaged between four 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.

Effective April 19, 2017 the Company renewed its bank facilities under similar terms and conditions with the exception of extending the revolving period to April 30, 2018 and a maturity date of April 30, 2019. 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.

Advances drawn under the credit facilities are secured by a fixed and floating charge debenture over the assets of the Company. In the event the credit facilities are not extended or renewed, amounts drawn under the facility would be due and payable on the maturity date. The size of the committed credit facilities is based primarily on the value of the Company's producing petroleum and natural gas assets and related tangible assets as determined by the lenders. For more information see Note 6 of the March 31, 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, March 31 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 8 of the March 31, 2017 condensed financial statements.

Dividend Policy

For the three months ended March 31, 2017, the Company declared and paid dividends of $9,992,000 ($0.30 per share) (March 31, 2016 – $9,943,000 ($0.30 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 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 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 41 percent for the three months ended March 31, 2017 (89 percent for the three months ended March 31, 2016).

Quarterly Financial Information

For the periods ended ($ 000s except $ per share)	**2017**	2016			
	Q1	Q1	Q3	Q2	Q1
Revenue - oil and gas sales	**49,330**	48,967	46,236	41,150	33,510
Cash flow from operations	**24,540**	31,537	19,219	13,392	11,146
Net earnings (loss)	**475**	(1,168)	(5,830)	(5,582)	(11,555)
Per share - basic	**0.01**	(0.03)	(0.18)	(0.17)	(0.35)
Per share - diluted	**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 and production costs. In the first and second quarters of 2016, net earnings and cash flow are lower than 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 March 31, 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 three months ended March 31, 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	**March 31, 2017**	December 31, 2016
Assets			
Current			
Accounts receivable		**21,510**	20,774
Crude oil inventory		**573**	1,060
Prepaid expenses		**2,053**	2,529
Investments		**371**	452
		24,507	24,815
Investment in related party		**848**	1,169
Exploration and evaluation assets		**7,073**	7,073
Property, plant and equipment	3	**1,022,326**	1,013,133
Investment tax credit receivable	7	**8,834**	8,834
Goodwill		**92,810**	92,810
		1,156,398	1,147,834
Liabilities			
Current			
Accounts payable and accrued liabilities		**39,490**	25,236
Due to related party	4	**12,000**	12,000
Subordinated promissory note	5	**12,500**	12,500
		63,990	49,736
Bank debt	6	**330,118**	329,204
Decommissioning liabilities		**101,628**	100,941
Deferred tax liability	7	**124,920**	124,129
		620,656	604,010
Subsequent events	10		
Shareholders' equity			
Share capital	8	**763,977**	763,788
Contributed surplus		**22,661**	21,068
Accumulated other comprehensive income		**67**	414
Retained earnings (deficit)		**(250,963)**	(241,446)
		535,742	543,824
		1,156,398	1,147,834

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

For the three months ended March 31 (unaudited) ($ 000s, except $ per share)	Note	2017	2016
Revenue			
Oil and gas sales, net of royalties	9	**45,923**	31,045
Other income		**55**	64
		45,978	31,109
Expenses			
Production		**14,625**	12,771
Office and administration		**606**	889
Employee compensation		**1,511**	964
Finance costs		**4,734**	4,540
Share-option compensation	8	**1,639**	1,249
Depletion and depreciation	3	**21,543**	25,145
		44,658	45,558
Earnings (Loss) before income taxes		**1,320**	(14,449)
Taxes			
Current income tax expense (recovery)	7	**-**	(3,279)
Deferred income tax expense	7	**845**	385
		845	(2,894)
Net earnings (loss) for the period		**475**	(11,555)
Other comprehensive income (loss)			
Unrealized gain (loss) on investments		**(401)**	353
Deferred taxes on unrealized (gain) loss on investments		**54**	(48)
Other comprehensive income (loss) for the period		**(347)**	305
Total comprehensive income (loss) for the period		**128**	(11,250)
Net earnings (loss) per share - basic and diluted	8	**0.01**	(0.35)
Comprehensive income (loss) per share - basic and diluted	8	**0.00**	(0.34)

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF CASH FLOW

For the three months ended March 31 (unaudited)

($ 000s)	Note	**2017**	2016
Operating activities			
Net earnings (loss)		**475**	(11,555)
Items not affecting cash			
Deferred income taxes		**845**	385
Share-option compensation		**1,639**	1,249
Depletion and depreciation		**21,543**	25,145
Unwinding of the discount on decommissioning liabilities		**741**	580
Investment income		**(7)**	(5)
Interest expense		**3,994**	3,960
Change in non-cash working capital accounts:			
Accounts receivable		**(1,839)**	(3,043)
Crude oil inventory		**175**	39
Prepaid expenses		**476**	548
Accounts payable and accrued liabilities		**840**	(1,497)
Decommissioning expenditures		**(348)**	(700)
Interest paid		**(3,994)**	(3,960)
Cash provided by operating activities		**24,540**	11,146
Financing activities			
Increase in bank debt		**914**	12,647
Subordinated promissory note		**-**	(10,000)
Stock option proceeds		**143**	-
Dividends		**(9,992)**	(9,943)
Cash used in financing activities		**(8,935)**	(7,296)
Investing activities			
Investment income received		**7**	5
Property, plant and equipment expenditures	3	**(30,129)**	(1,683)
Proceeds on sale of investments		**-**	568
Change in non-cash working capital accounts:			
Accounts payable and accrued liabilities		**13,414**	(4,096)
Accounts receivable		**1,103**	1,356
Cash used in investing activities		**(15,605)**	(3,850)
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 8)	Share Capital (Note 8)	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			1,249			1,249
Comprehensive loss				305	(11,555)	(11,250)
Transfer on realized gain on investments				(472)	472	-
Deferred taxes on realized gain on investments				64		64
Dividends					(9,943)	(9,943)
March 31, 2016	33,143,435	760,020	17,014	468	(201,577)	575,925
Share-option compensation			4,569			4,569
Exercise of options	159,000	3,253				3,253
Transfer to share capital on exercise of options		515	(515)			-
Comprehensive income (loss)				2,174	(12,580)	(10,406)
Transfer on realized loss on investments				(2,575)	2,575	-
Deferred taxes on realized loss on investments				347		347
Dividends					(29,864)	(29,864)
December 31, 2016	33,302,435	763,788	21,068	414	(241,446)	543,824
Share-option compensation			1,639			1,639
Exercise of options	8,361	143				143
Transfer to share capital on exercise of options		46	(46)			-
Comprehensive income (loss)				(347)	475	128
Dividends					(9,992)	(9,992)
March 31, 2017	33,310,796	763,977	22,661	67	(250,963)	535,742

(1) Contributed surplus includes all amounts related to share-based payments

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

See accompanying notes to these condensed financial statements.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

As at March 31, 2017 and December 31, 2016 and for the three months ended March 31, 2017 and March 31, 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 May 10, 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	21,608	8,308	213	30,129
Adjustment to decommissioning liabilities (1)	294	-	-	294
Balance at March 31, 2017	**1,302,855**	**323,347**	**2,295**	**1,628,497**

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	(17,558)	(3,944)	(41)	(21,543)
Other	-	-	313	313
Balance at March 31, 2017	**(493,976)**	**(110,853)**	**(1,342)**	**(606,171)**

Carrying amounts as at: ($ 000s)				
December 31, 2016	804,535	208,130	468	1,013,133
March 31, 2017	**808,879**	**212,494**	**953**	**1,022,326**

(1) Adjustment to decommissioning liabilities is due to an increase 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 three months ended March 31, 2017 and 2016.

4. TRANSACTIONS WITH RELATED PARTIES

As at March 31, 2017, the Company's CEO, Chairman of the Board and 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 three months of 2017 was $61,000 (March 31, 2016 - $62,000).

The Company received a management fee of $nil plus the reimbursement of certain administrative expenses for the three months ended March 31, 2017 (March 31, 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 March 31, 2017, the Company had an account receivable from Pine Cliff of $63,000 (December 31, 2016 - $51,000).

5. SUBORDINATED PROMISSORY NOTE

As at March 31, 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 three months was $154,000 (March 31, 2016 - $130,000).

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

6. BANK DEBT

As at March 31, 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 March 31, 2017 were $330,118,000 (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 provided that the loan is revolving to April 30, 2017, with a maturity date of April 30, 2018, subject to annual review.

Effective April 19, 2017 the Company renewed its bank facility under similar terms and conditions with the exception of extending the revolving period to April 30, 2018 and a maturity date of April 30, 2019. 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 March 31, 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 March 31, 2017 consolidated debt is $354,618,000.
- 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 March 31, 2017, the Company is in compliance with all covenants.

7. 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	97,904
Eligible capital expenditures	7	2,206
Share issue costs	20	809
Canadian oil and gas property expenditures	10	159,110
Canadian development expenditures	30	167,475
Canadian exploration expenditures	100	8,063
Federal income tax losses carried forward[1]	100	52,852
Provincial income tax losses carried forward[2]	100	17,029
		505,448

[1] Federal income tax losses carried forward expire in the following years; 2035 - $16,837,000; 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.

8. 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, March 31 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 three months ended March 31 is as follows:

	2017	2016
Basic shares outstanding	**33,305,857**	33,143,435
Dilutive effect of share options[1]	**108,530**	-
Diluted shares outstanding	**33,414,387**	33,143,435

(1) Share options excluded from the dilutive effect of the share options is 2,081,000 for the three months ended March 31, 2017 (March 31, 2016 – 2,814,500) as these share options were anti-dilutive.

For the three months ended March 31, 2017, the Company declared and paid dividends of $9,992,000 ($0.30 per share) (March 31, 2016 - $9,943,000 ($0.30 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 March 31, 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	24,000	23.90
Options exercised[1]	(14,000)	20.46
Options forfeited	(30,000)	31.67
Options expired	(107,000)	53.97
At March 31, 2017	2,610,000	$29.52

(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 March 31, 2017:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding at March 31, 2017	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at March 31, 2017	Weighted-average exercise price
\$ 17.00 - \$ 30.00	1,558,000	1.1 years	\$ 23.50	612,000	\$ 20.40
30.01 - 45.00	876,000	0.5 years	34.57	843,000	34.61
45.01 - 65.00	176,000	0.6 years	57.64	57,000	56.76
\$ 17.00 - \$ 65.00	2,610,000	0.9 years	\$ 29.52	1,512,000	\$ 29.69

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 three month period ended March 31, 2017, the Company granted 24,000 stock options with an estimated fair value of \$122,000 or \$5.08 per option using the Black-Scholes option pricing model with the following key assumptions:

	March 31, 2017
Weighted-average risk free interest rate (%)(1)	**0.80**
Expected life (years)	**2.0**
Weighted-average volatility (%)(2)	**48.79**
Forfeiture rate (%)	**7.49**
Weighted average dividend yield (%)	**4.92**

(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.

9. OIL AND GAS SALES, NET OF ROYALTIES

(\$ 000s)	**March 31, 2017**	March 31, 2016
Oil and gas sales	**49,330**	33,510
Less:		
Crown royalties	**(2,355)**	(1,258)
Freehold, gross overriding royalties and other	**(1,052)**	(1,207)
Oil and gas sales, net of royalties	**45,923**	31,045

10. SUBSEQUENT EVENTS

Subsequent to March 31, 2017, the Company declared the following dividends:

Date declared	Record date	\$ per share	Date payable
April 3, 2017	April 14, 2017	0.10	April 28, 2017
May 1, 2017	May 15, 2017	0.10	May 31, 2017

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, 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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