For the Three Months ended March 31, 2018

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BONTERRA ENERGY REPORTS FIRST QUARTER 2018 FINANCIAL AND OPERATING RESULTS

HIGHLIGHTS

As at and for the three months ended ($000s except $ per share)		**March 31, 2018**	December 31, 2017		March 31, 2017
FINANCIAL					
Revenue - realized oil and gas sales		**57,124**	54,192		49,330
Funds flow (1)		**27,959**	26,948		25,243
Per share - basic and diluted		**0.84**	0.81		0.76
Dividend payout ratio		**36%**	37%		40%
Cash flow from operations		**29,877**	26,472		24,540
Per share - basic		**0.90**	0.79		0.74
Per share - diluted		**0.90**	0.79		0.73
Dividend Payout ratio		**33%**	38%		41%
Cash dividends per share		**0.30**	0.30		0.30
Net earnings		**3,395**	2,096		475
Per share - basic and diluted		**0.10**	0.06		0.01
Capital expenditures, net of disposition		**36,168**	18,775	(2)	30,129
Disposition		-	56,752	(2)	-
Total assets		**1,142,670**	1,125,551		1,156,398
Working capital deficiency		**46,630**	27,790		39,483
Long-term debt		**291,994**	292,212		330,118
Shareholders' equity		**504,240**	510,260		535,742
OPERATIONS					
Oil	-bbl per day	**8,034**	7,766		7,533
	-average price ($ per bbl)	**67.78**	65.16		60.63
NGLs	-bbl per day	**900**	963		813
	-average price ($ per bbl)	**38.70**	39.12		31.00
Natural gas	-MCF per day	**24,701**	24,466		22,243
	-average price ($ per MCF)	**2.24**	1.90		2.97
Total barrels of oil equivalent per day (BOE)		**13,051**	12,807		12,053

(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) For 2017, includes the Disposition of a two percent overriding royalty interest on the total production from the Company's Pembina Cardium pool that closed December 20, 2017 and is effective January 1, 2018. Consideration consisted of $52 million of cash and incremental Cardium assets valued at $4.7 million which is included in capital expenditures (refer to Note 5 of the December 31, 2017 audited annual financial statements).

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

REPORT TO SHAREHOLDERS

The first quarter of 2018 has shown a significant shift in the oil and gas industry indicating a strong possibility that a recovery is in sight. Bonterra took advantage of this favourable pricing by accelerating capital expenditures and in the first quarter, drilled 15 of the Company's 31 budgeted wells for 2018. We continue to be a low-cost producer, with industry low decline rates and a large inventory of economic undrilled locations.

Year-over-year Bonterra finds itself at a strategic advantage over peers in that it only requires approximately 45 percent of overall funds flow to maintain existing production volumes. The balance is directed towards paying dividends to shareholders and reducing debt. When excess funds are available and appear to be sustainable for the longer-term, we may elect to increase capital expenditures to grow production volumes consistent with our efforts in the first quarter of 2018 or increase the dividend.

We are pleased with Bonterra's strong operational execution during the first quarter of 2018, with highlights that include:

- Generated funds flow of $28.0 million, or $0.84 per share, an eleven percent increase compared to Q1 2017.
- Continued cash dividend payments to shareholders, which resulted in a payout ratio of 36 percent of funds flow.
- Quarterly production which averaged 13,051 BOE per day, eight percent higher than Q1 2017 volumes of 12,053 BOE per day, and further ramping up to average approximately 14,600 BOE per day for the month of April.
- Invested approximately $36 million in capital in the first quarter or close to 50 percent of the $75 million capital budget for the year.
- Recorded cash netbacks in Q1 2018 of $23.81 per BOE compare to $22.98 per BOE in Q4 2017, a 4% increase.
- Realized an average crude oil price of $67.78 per barrel and an average overall price of $48.63 per BOE in Q1 2018.
- Bank debt at the end of Q1 2018 was $292 million compared to $330 million at the end of Q1 2017.
- Net earnings for Q1 2018 were $3.4 million compared to net earnings of $0.5 million for Q1 2017.

Outlook

Global oil prices have seen a strong recovery from the lows experienced two years ago as a result of rebalancing efforts reflected in OPEC and non-OPEC supply cuts combined with increased global demand growth. Crude oil prices have steadily improved and shown a welcome recovery this past quarter, with the forecast price outlook remaining strong for the remainder of the year. On the flip side, natural gas prices in western Canada have continued to be weak with ongoing challenges caused by a lack of sufficient take away capacity that would provide transportation out of the region to higher-value markets. This reinforces the need for producers to maintain pipeline and transportation options, which Bonterra has addressed with firm service transportation commitments on approximately 90 percent of its natural gas production.

Bonterra remains focused on the basic fundamentals that have allowed the Company to remain stable, generate steady funds flow and pay our monthly dividend through the past downturn in the oil and gas industry. We are a low-cost producer with one of the lowest production decline rates in the industry of 22 percent, offer significant upside exposure to the massive Pembina Cardium pool, and have a large inventory of low-risk, highly economic undrilled locations which will drive further success. The Company's sustainable growth plus dividend model has ensured stable production and funds flow during periods of weak commodity prices, with significant torque to the upside when crude oil prices are rising. With the recent strengthening in oil prices and ongoing conservative management of the business, Bonterra is well positioned to grow production, reserves and funds flow, which all translate into shareholder value creation.

For 2018, Bonterra anticipates that approximately 90 percent of our revenue will be derived from crude oil and natural gas liquids ("NGLs"), which positions us very well within the current environment. The Company remains on target to meet annual production guidance of 13,200 to 13,400 BOE per day while targeting a net debt to cash flow ratio in a range between 2.1 to 2.5 times at year end 2018.

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 May 8, 2018 is a review of the operations and current financial position for the three months ended March 31, 2018 for Bonterra Energy Corp. ("Bonterra" or "the Company") and should be read in conjunction with the unaudited condensed financial statements and the audited financial statement including the notes related thereto for the fiscal year ended December 31, 2017 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; "AECO" refers to Alberta Energy Company, a grade or heating content of natural gas used as benchmark pricing in Alberta, Canada; "bbl" refers to barrel; "NGL" refers to Natural gas liquids; "MCF" refers to thousand cubic feet; "MMBTU" refers to million British Thermal Units; "GJ" refers to gigajoule; 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

As at and for the periods ended ($ 000s except $ per share)	**2018** **Q1**	2017 Q4	Q3	Q2	Q1
Financial					
Revenue - oil and gas sales	**57,124**	54,192	46,349	52,695	49,330
Cash flow from operations	**29,877**	26,472	25,491	27,370	24,540
Per share - basic and diluted	**0.90**	0.79	0.77	0.82	0.74
Payout ratio	**33%**	38%	40%	37%	41%
Cash dividends per share	**0.30**	0.30	0.30	0.30	0.30
Net earnings (loss)	**3,395**	2,096	(3,043)	2,978	475
Per share - basic and diluted	**0.10**	0.06	(0.09)	0.09	0.01
Capital expenditures	**36,168**	18,775 [1]	14,121	19,416	30,129
Disposition	**-**	56,752 [1]	-	-	-
Total assets	**1,142,670**	1,125,551	1,146,498	1,173,936	1,156,398
Working capital deficiency	**46,630**	27,790	28,260	29,759	39,483
Long-term debt	**291,994**	292,212	345,322	341,070	330,118
Shareholders' equity	**504,240**	510,260	517,719	529,844	535,742
Operations					
Oil (barrels per day)	**8,034**	7,766	8,038	8,287	7,533
NGLs (barrels per day)	**900**	963	1,000	843	813
Natural gas (MCF per day)	**24,701**	24,466	25,460	24,138	22,243
Total BOE per day	**13,051**	12,807	13,281	13,153	12,053

[1] For Q4 2017, includes the Disposition of a two percent overriding royalty interest on the total production from the Company's Pembina Cardium pool that closed December 20, 2017 and is effective January 1, 2018. Consideration consisted of $52 million of cash and incremental Cardium assets valued at $4.7 million which is included in capital expenditures (refer to Note 5 of the December 31, 2017 audited annual financial statements).

As at and for the periods ended ($ 000s except $ per share)	2016 Q4	Q3	Q2	Q1
Financial				
Revenue - oil and gas sales	48,967	46,236	41,150	33,510
Cash flow from operations	31,537	19,219	13,392	11,146
Per share - basic and diluted	0.94	0.58	0.40	0.34
Dividend payout ratio	32%	52%	75%	89%
Cash dividends per share	0.30	0.30	0.30	0.30
Net loss	(1,168)	(5,830)	(5,582)	(11,555)
Per share - basic and diluted	(0.03)	(0.18)	(0.17)	(0.35)
Capital expenditures, net of dispositions	12,270	17,424	9,420	1,683
Total assets	1,147,834	1,163,743	1,169,782	1,174,141
Working capital deficiency	24,921	26,361	18,429	13,115
Long-term debt	329,204	335,953	336,923	345,118
Shareholders' equity	543,824	549,870	564,075	575,925
Operations				
Oil (barrels per day)	7,467	8,197	7,780	8,325
NGLs (barrels per day)	911	942	877	845
Natural gas (MCF per day)	22,540	24,948	21,771	22,274
Total BOE per day	12,134	13,298	12,285	12,882

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.

	Q1-2018	Q4-2017	Q3-2017	Q2-2017	Q1-2017	Q4-2016	Q3-2016	Q2-2016
Crude oil								
WTI (U.S.$/bbl)	**62.87**	55.40	48.30	48.28	51.91	49.29	44.94	45.59
WTI to MSW Stream Index								
Differential (U.S.$/bbl)[1]	**(5.89)**	(1.14)	(2.89)	(2.26)	(3.60)	(3.09)	(3.02)	(3.14)
Foreign exchange								
U.S.$ to Cdn$	**1.2651**	1.2717	1.2524	1.3447	1.3230	1.3339	1.3051	1.2886
Bonterra average realized								
oil price (Cdn$/bbl)	**67.78**	65.16	53.48	58.27	60.63	58.02	51.80	51.64
Natural gas								
AECO (Cdn$/mcf)	**2.07**	1.68	1.45	2.77	2.68	3.08	2.31	1.39
Bonterra average realized								
gas price (Cdn$/mcf)	**2.24**	1.90	1.81	3.03	2.97	3.32	2.47	1.48

(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 infrastructure and markets;
- Weather; and
- Timing and duration of plant, refinery and pipeline maintenance.

WTI benchmark pricing which has been steadily increasing from the low of $30.62 US per bbl in February of 2016, continued to increase in the first quarter of 2018 to over $60.00 US per barrel. This price increase has been attributed to reductions in global crude oil inventories and increased global demand. With the 2016 OPEC agreement extended through 2018, this trend is anticipated to continue, although it may be tempered somewhat if US shale production continues to significantly increase. In November of 2017 the Keystone pipeline had a crude oil spill in South Dakota, US. The Keystone pipeline is currently running under capacity which has led to reduced transportation and storage issues for crude oil in the western Canadian sedimentary basin. In addition, provincial government disputes on pipeline projects has negatively impacted the commencement of several anticipated pipeline expansions including TransMountain Pipeline, Enbridge Line 3 Expansion and Keystone XL. Should the provincial government disputes escalate, it may result in additional regulations that could negatively affect existing capacity to transport oil out of Alberta. The Keystone pipeline spill in South Dakota and recent political events have impacted the WTI to Edmonton Par or MSW stream index (both light sweet crude benchmarks) differential, which has widened in 2018. Expanding export capacity by increasing capacity on existing lines or completion of any of the pipeline expansion projects may have a positive effect on the movement and pricing of Canadian barrels.

The AECO benchmark price for natural gas improved somewhat through the first quarter of 2018 compared to the third and fourth quarters of 2017. This was mainly due to the prolonged winter that increased heating demand. Western Canadian supply continues to hover near historically high levels. Should this continue throughout 2018, pipeline infrastructure will struggle to handle all of the existing and incremental volumes. It is anticipated that these incremental volumes will place downward pressure on natural gas prices through the summer season, which typically has lower demand.

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 2018 (1)

Impact on cash flow	Change ($)	$000s	$ per share (2)
Realized crude oil price ($/bbl)	1.00	2,690	0.08
Realized natural gas price ($/mcf)	0.10	870	0.03
U.S.$ to Canadian $ exchange rate	0.01	1,453	0.04

(1) This analysis uses current royalty rates, annualized estimated average production of 13,200 BOE per day and no changes in working capital

(2) Based on annualized basic weighted average shares outstanding of 33,310,796

Business Overview, Strategy and Key Performance Drivers

Bonterra is a dividend-paying, conventional oil and gas company focused on growing cashflow, production and reserves on a per share basis. With a high-quality asset base, conservative financial management, and strong capital efficiencies, the Company is well positioned to deliver long-term sustainable growth.

During the first quarter, Bonterra continued to focus on the development of its high quality, oil-weighted assets in the Pembina Cardium area in Alberta. The Company benefitted from a higher commodity price environment and a decrease in long-term debt compared to the same quarter in 2017. To avoid lease accessibility issues with an expected extended spring breakup, the Company deployed approximately fifty percent of its $75,000,000 annual capital budget which included the use of a second drilling rig. For Q1 2018, production averaged 13,051 BOE per day with production for the month of April 2018 averaging approximately 14,600 BOE per day, which is expected to enable Bonterra to maintain its annual production guidance of 13,200 to 13,500 BOE per day.

Bonterra invested approximately $36,168,000 to drill 15 gross operated (14.9 net) horizontal wells and complete and tie-in 14 gross (13.9 net) wells, of which two gross (2.0 net) were placed on production in January and 12 gross (11.9 net) were placed on production in March with the remaining well being completed and placed on production in April. To partially protect March production revenue and related cash flow for Q2 2018 and to minimize the effects of potential declining commodity prices, the Company entered into physical delivery sales contracts. For Q2 2018, the Company will receive an average minimum WTI price on crude oil of $57.51 US per bbl for 2,500 bbl per day (approximately 30 percent of Q1 2018 oil production) and $0.80 per GJ on natural gas for 5,000 GJ per day (approximately 20 percent of Q1 2018 gas production).

On April 30, 2018 the Company renewed its bank facility at $380,000,000 under similar terms and conditions. The bank facility is comprised of a $330,000,000 syndicated revolving credit facility, and a $50,000,000 non-syndicated revolving credit facility. The revolving period on the bank facility expires on April 29, 2019, with a maturity date of April 30, 2020, subject to an annual review. As at March 31, 2018, Bonterra had $291,994,000 (March 31, 2017 - $330,118,000) drawn on the $380,000,000 bank facility. These credit facilities provide the Company with sufficient liquidity and financial flexibility to execute its business plan.

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					
		March 31, 2018		December 31, 2017		March 31, 2017
	Gross[1]	**Net[2]**	Gross[1]	Net[2]	Gross[1]	Net[2]
Crude oil horizontal-operated	**15**	**14.9**	5	4.4	13	11.5
Crude oil horizontal-non-operated	**2**	**0.2**	2	0.2	2	0.4
Total	**17**	**15.1**	7	4.6	15	11.9
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 2018, the Company drilled 15 gross (14.9 net) wells, of which 14 gross (13.9 net) wells were completed, tied-in and placed on production. The remaining well was brought on production in April 2018.

In addition, two gross (0.2 net) non-operated well was drilled, completed and on production during the first quarter of 2018.

Production

	Three months ended		
	March 31, 2018	December 31, 2017	March 31, 2017
Crude oil (barrels per day)	**8,034**	7,766	7,533
NGLs (barrels per day)	**900**	963	813
Natural gas (MCF per day)	**24,701**	24,466	22,243
Average BOE per day	**13,051**	12,807	12,053

Production volumes increased during the first three months of 2018 by 998 BOE per day compared to the first three months of 2017. Higher production was attributable to fourteen (13.9 net) wells being placed on production for Q1 2018 compared to five (3.7 net) wells for Q1 2017 as a result of challenges procuring fracking services in Q1 2017.

During the first quarter of 2018, production increased 244 BOE per day compared to the fourth quarter of 2017. This was primarily due to production from the fourteen new wells coupled with running four service rigs to limit downtime during spring break-up and when road bans are imposed, as it is more difficult to access existing leases or construct new ones. The Company expects average quarterly production to increase for Q2 2018 from Q1 2018 due to new wells being placed on production late in the first quarter.

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, 2018**	December 31, 2017	March 31, 2017
Production volumes (BOE)	**1,174,598**	1,178,212	1,084,812
Gross production revenue	**48.63**	46.09	45.47
Royalties	**(4.92)**	(3.37)	(3.14)
Production costs	**(14.49)**	(14.79)	(13.48)
Field netback	**29.22**	27.93	28.85
General and administrative	**(1.73)**	(1.37)	(1.95)
Interest and other	**(3.68)**	(3.58)	(3.63)
Cash netback	**23.81**	22.98	23.27

Cash netbacks for Q1 2018 compared to Q1 2017 have increased slightly. This is primarily due to the increase in commodity prices being partially offset by an increase in royalty rates for the two percent gross overriding royalty (GORR) on the Pembina Cardium pool assets effective January 1, 2018. Production costs also increased due to adding additional service rigs to repair wells that were not producing before the spring breakup and to take advantage of the increase in the price of crude oil.

Oil and Gas Sales

	Three months ended		
	March 31, 2018	December 31, 2017	March 31, 2017
Revenue - oil and gas sales ($ 000s)			
Crude oil	**49,009**	46,449	41,053
NGL	**3,135**	3,465	5,822
Natural gas	**4,980**	4,278	2,455
	57,124	54,192	49,330
Average realized prices:			
Crude oil ($ per barrel)	**67.78**	65.16	60.63
NGLs ($ per barrel)	**38.70**	39.12	31.00
Natural gas ($ per MCF)	**2.24**	1.90	2.97
Average ($ per BOE)	**48.63**	46.09	45.47
Average BOE per day	**13,051**	12,807	12,053

Revenue from oil and gas sales for the first quarter of 2018 increased by $7,794,000 in 2018, or 16 percent, compared to the same period a year ago. This increase was primarily driven by increased production and commodity prices for oil and NGLs. The quarter over quarter increase in oil and gas sales was primarily due to increased production volumes and commodity prices.

The Company's product split on a revenue basis for 2018 is approximately 91 percent weighted towards crude oil and NGLs.

Royalties

	Three months ended		
($ 000s)	**March 31, 2018**	December 31, 2017	March 31, 2017
Crown royalties	**3,807**	2,913	2,355
Freehold, gross overriding and other royalties	**1,974**	1,061	1,052
Total royalties	**5,781**	3,974	3,407
Crown royalties - percentage of revenue	**6.7**	5.4	4.8
Freehold, gross overriding and other royalties - percentage of revenue	**3.5**	2.0	2.1
Royalties - percentage of revenue	**10.2**	7.4	6.9
Royalties $ per BOE	**4.92**	3.37	3.14

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 $1.78 per BOE for Q1 2018 compared to Q1 2017 and increased by $1.55 per BOE compared to Q4 2017. The increases are primarily due to the two percent GORR transaction on the Pembina Cardium pool assets along with an overall increase in commodity prices.

Production Costs

($ 000s except $ per BOE)	**March 31, 2018**	Three months ended December 31, 2017	March 31, 2017
Production costs	**17,026**	17,428	14,625
$ per BOE	**14.49**	14.79	13.48

Production costs tend to be higher in the first quarter of each year compared to subsequent quarters due to the wet surface conditions in the second quarter which reduces lease access and activity. In order to limit the effects of spring breakup and wet weather, the Company's drilling program is heavily weighted to the first quarter allowing more new production with lower operating costs on a per BOE basis to then be realized in subsequent quarters. The Company will also expend more resources to optimize its field operating costs on existing production in the first quarter to limit down time in the second quarter due to lease inaccessibility.

Production costs for the first three months of 2018 increased by $1.01 per BOE compared to Q1 2017, primarily due to running four service rigs instead of two in order to reactivate more shut-in wells due to higher commodity prices and to avoid pending road bans. With most of the production from new wells starting in late March, the Company expects reduced production costs on a per BOE basis in Q2 2018 and annual production costs on a per BOE basis to be less than the $13.26 per BOE realized for 2017.

Quarter over quarter, production costs decreased minimally on a per BOE basis primarily due to new wells coming on production late in the quarter

Other Income

($ 000s)	**March 31, 2018**	Three months ended December 31, 2017	March 31, 2017
Investment income	**99**	33	7
Administrative income	**52**	108	48
Deferred consideration	**345**	-	-
Gain on sale of property	**-**	4,233	-
	496	4,374	55

In the fourth quarter of 2017, Bonterra sold a two percent overriding royalty interest on all the total production from the Company's Pembina Cardium pool with an effective date of January 1, 2018. Consideration received on disposition was $56,747,000, comprised of $52,000,000 in cash and property, plant and equipment valued at $4,747,000. The result of this disposition was a gain on disposal of $4,226,000 and deferred consideration of $16,064,000, of which $345,000 was recognized in the first quarter of 2018.

The market value of the investments held by the Company at March 31, 2018 was $560,000 (March 31, 2017 - $1,219,000). The carrying value decreased due to a reduction in the investments carrying value. There were no dispositions for the three months ended March 31, 2018 or 2017. Dispositions that result in a gain or loss on sale are 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

	Three months ended		
	March 31,	December 31,	March 31,
($ 000s except $ per BOE)	**2018**	2017	2017
Employee compensation expense	**1,365**	1,007	1,511
Office and administrative expense	**665**	611	606
Total G&A expense	**2,030**	1,618	2,117
$ per BOE	**1.73**	1.37	1.95

The decrease of $146,000 in employee compensation expense for the first three months of 2018 compared to the same period in 2017 is due to a one-time bonus paid to staff in January 2017 and consultants in lieu of compensation increases over the previous two years and to remain competitive with similar sized companies in the resource industry. The quarter over quarter increase in employee compensation is due to a higher bonus accrual from increased earnings before income taxes. 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.

Finance Costs

	Three months ended		
	March 31,	December 31,	March 31,
($ 000s except $ per BOE)	**2018**	2017	2017
Interest on long-term debt	**4,260**	4,129	3,777
Other interest	**219**	235	216
Interest expense	**4,479**	4,364	3,993
$ per BOE	**3.81**	3.70	3.68
Unwinding of the discounted value of decommissioning liabilities	**757**	761	741
Total finance costs	**5,236**	5,125	4,734

Interest on long-term debt increased in Q1 2018 compared to Q1 2017 despite the Company lowering its average long-term debt by $52,000,000, as the Company realized higher interest rates based on a trailing net debt to EBITDA ratio for Q3 2017. Interest rates on long-term debt will decrease in Q2 2018 with a much lower Q4 2017 net debt to EBITDA ratio coming into effect. 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 $10,000,000 subordinated promissory note from a private investor. For more information about the subordinated promissory note, refer to Note 6 of the March 31, 2018 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 $2,219,000.

Share-Option Compensation

	Three months ended		
	March 31,	December 31,	March 31,
($ 000s)	**2018**	2017	2017
Share-option compensation	**742**	604	1,639

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 decreased by $897,000 from a year ago as the majority of the options issued in the third quarter of 2016 were fully amortized by the fourth quarter of 2017 and given the lower share price volatility in the current year from the options issued in the fourth quarter of 2017. Quarter over quarter share-option compensation increased due to a full quarter of amortization for the options issued in Q4 2017.

Based on the outstanding options as of March 31, 2018, the Company has an unamortized expense of $2,743,000, of which $1,741,000 will be recorded for the remainder of 2018, $982,000 for 2019 and $20,000 thereafter. For more information about options issued and outstanding, refer to Note 9 of the March 31, 2018 condensed financial statements.

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

		Three months ended	
($ 000s)	**March 31, 2018**	December 31, 2017	March 31, 2017
Depletion and depreciation	**21,450**	22,912	21,543
Exploration and evaluation	**291**	1,566	-

The provision for depletion and depreciation remained relatively stable as $36,457,000 of carrying value was removed in the fourth quarter of 2017 from the disposal of the two percent GORR transaction, which was offset by the $36,168,000 of capital spent in the first quarter of 2018.

Exploration and evaluation expense related to expired leases.

There were no impairment provisions recorded for the three months ended March 31, 2018 and 2017.

Taxes

The Company recorded a deferred income tax expense of $1,669,000 for Q1 2018 (Q1 2017 – $845,000). The increase in deferred income tax expense is due to an increase in net earnings before income taxes. No current income tax expense was recognized for the three months ended March 31, 2018 or 2017.

For additional information regarding income taxes, see Note 8 of the March 31, 2018 condensed financial statements.

Net Earnings (Loss)

		Three months ended	
($ 000s except $ per share)	**March 31, 2018**	December 31, 2017	March 31, 2017
Net earnings	**3,395**	2,096	475
$ per share - basic	**0.10**	0.06	0.01
$ per share - diluted	**0.10**	0.06	0.01

Net earnings for Q1 2018 increased by $2,920,000 compared to Q1 2017. The increase in net earnings was mainly due to increased commodity prices and production volumes. The increase in net earnings was partially offset by an increase in royalties and production costs.

The quarter over quarter increase in net earnings was mainly due to a decrease in deferred tax expense, as the Company recognized a valuation allowance of $1,901,000 on its non-core successored resource related pools in Q4 2017.

Other Comprehensive Income (Loss)

Other comprehensive income for 2018 consists of an unrealized loss before tax on investments (including investment in a related party) of $190,000 relating to a decrease in the investments' fair value (March 31, 2017 – unrealized loss of $401,000). Realized gains decrease accumulated other comprehensive income as these gains are transferred to retained earnings. Other comprehensive income varies from net earnings by unrealized changes in the fair value of Bonterra's holdings of investments including the investment in a related party, net of tax.

Cash Flow from Operations

	Three months ended		
($ 000s except $ per share)	**March 31, 2018**	December 31, 2017	March 31, 2017
Cash flow from operations	**29,877**	26,472	24,540
$ per share - basic	**0.90**	0.79	0.74
$ per share - diluted	**0.90**	0.79	0.73

In Q1 2018, cash flow from operations increased by $5,337,000 compared to Q1 2017. This was primarily due to an increase in revenue from oil and gas sales and to an increase in non-cash-working capital. The increase in cash flow was partially offset by an increase in royalties and production costs.

The quarter over quarter increase in cash flow of $3,405,000 is primarily due to an increase in revenue from oil and gas sales and to an increase in non-cash-working capital. The increase in cash flow was partially offset by an increase in royalties.

Related Party Transactions

Bonterra holds 1,034,523 (December 31, 2017 – 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, 2018 of $326,000 (December 31, 2017 of $476,000). The Company provides executive and marketing services for Pine Cliff. All services that were performed were charged at estimated fair value. As at March 31, 2018, the Company had an account receivable from Pine Cliff of $22,000 (December 31, 2017 – $36,000).

As at March 31, 2018, the Company's CEO, Chairman of the Board and a major shareholder has loaned the Company $12,000,000 (December 31, 2017 - $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 2018 was $83,000 (March 31, 2017 - $61,000). 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 March 31, 2018 was 3.1 to 1 times (versus 3.1 to 1 times at December 31, 2017). The comparable net debt to cash flow ratio is primarily due to an increase in cash flow that was offset by an increase in net debt from spending approximately half of the Company's $75,000,000 capital budget in the first quarter of 2018. The Company anticipates a reduction in net debt due to substantially less capital being spent as a result of spring breakup and higher production levels from the accelerated capital program in Q1 2018. The Company's primary focus is to manage its bank debt during a period of volatile commodity prices. The Company will continue to assess its dividend and capital expenditures compared to cash flow from operations on a quarterly basis.

Working Capital Deficiency and Net Debt

($ 000s)	**March 31, 2018**	December 31, 2017	March 31, 2017
Working capital deficiency	**46,630**	27,790	39,483
Long-term bank debt	**291,994**	292,212	330,118
Net Debt	**338,624**	320,002	369,601

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, 2018 decreased by $30,977,000 from March 31, 2017 primarily due to the $52,000,000 received for the GORR transaction in the fourth quarter of 2017 and increased cash flow from higher commodity prices. This was offset by an accelerated capital program and dividends paid in the period. Quarter over quarter net debt increased by $18,622,000 primarily due to an increase in working capital deficiency. In an effort to avoid an extended wet spring breakup that causes related road bans, the Company decided to allocate approximately fifty percent of its $75,000,000 annual capital budget to the first quarter and deployed four service rigs instead of its standard two service rigs to limit production going off-line during periods when leases are inaccessible.

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, sale of non-core assets and investments and adjustments of dividend payments. Included in the working capital deficiency at March 31, 2018 is $22,000,000 million of debt relating to the subordinated promissory note and the amount due to a related party.

Financial Risk Management

The Company has entered into physical delivery sales contracts to manage commodity risk. These contracts are considered normal sales contracts and are not recorded at fair value in the financial statements. For more information on physical delivery contracts in place see Note 11 of the March 31, 2018 condensed financial statements.

Capital Expenditures

During the three months ended March 31, 2018, the Company incurred capital expenditures of $36,168,000 (March 31, 2017 - $30,129,000). The costs relate to drilling 15 gross (14.9 net) wells with related infrastructure costs, of which 14 gross (13.9 net) wells were completed, tied-in and placed on production. The remaining well was brought on production in April of 2018.

Liability Management Ratio ("LMR") Update

In the first three months of 2018, 94.6 percent of the Company's production is from the province of Alberta. The Company currently has an LMR rating of 2.06 in Alberta and does not expect that with its current LMR there will be any regulatory impediments to completing future potential acquisitions.

Long-term Debt

Long-term debt represents the outstanding draws from the Company's bank facility as described in the notes to the Company's audited annual financial statements. As of March 31, 2018, the Company has a bank facility with a limit of $380,000,000 (December 31, 2017 - $380,000,000) that is comprised of a $330,000,000 syndicated revolving credit facility and a $50,000,000 non-syndicated revolving credit facility. Amounts drawn under this bank facility at March 31, 2018 totaled $291,994,000 (December 31, 2017 - $292,212,000). The interest rates for the first three months ended March 31, 2018 on the Company's Canadian prime rate loan and Banker's Acceptances are between five to seven 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.

Effective April 30, 2018 the Company renewed its bank facility under similar terms and conditions with the exception of extending the revolving period to April 29, 2019, a maturing date of April 30, 2020 and interest will bear a floating rate based on the applicable Canadian prime rate or Banker's Acceptance rate, plus between 0.50 percent and 3.50 percent (prior to renewal, plus between 1.00 percent and 4.25 percent), depending on the type of borrowing and the Company's consolidated debt to EBITDA ratio.

Advances drawn under the bank facility are secured by a fixed and floating charge debenture over the assets of the Company. In the event the bank facility is 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 7 of the March 31, 2018 condensed financial statements.

Shareholders' Equity

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

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

Issued and fully paid - common shares	**Number**	**Amount ($ 000s)**
Balance, March 31, 2018 and December 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, 2017 – 3,331,080) common shares. The exercise price of each option granted will not be lower than the market price of the common shares on the date of grant and the option's maximum term is five years. For additional information regarding options outstanding, see Note 9 of the March 31, 2018 condensed financial statements.

Dividend Policy

For the three months ended March 31, 2018, the Company declared and paid dividends of $9,993,000 ($0.30 per share) (March 31, 2017 – $9,992,000) ($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 with a combination of sustainable growth and meaningful dividend income. Bonterra's dividend payout ratio based on cash flow from operations was 33 percent for the three months ended March 31, 2018 (41 percent for the three months ended March 31, 2017).

Bonterra's dividends to its shareholders are funded by cash flow from operating activities with the remaining cash flow directed to capital spending and debt repayment. To the extent that the excess cash flow from operations after dividends is not sufficient to cover capital spending, the shortfall is funded by drawdowns on Bonterra's bank facility. Bonterra intends to provide dividends to shareholders that are sustainable by 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 related to changes in financial and operational performance, commodity prices, interest and exchange rates and many other factors, future dividends cannot be assured.

Quarterly Financial Information

For the periods ended ($ 000s except $ per share)	**2018** Q1	2017 Q4	2017 Q3	2017 Q2	2017 Q1
Revenue - oil and gas sales	**57,124**	54,192	46,349	52,695	49,330
Cash flow from operations	**29,877**	26,472	25,491	27,370	24,540
Net earnings (loss)	**3,395**	2,096	(3,043)	2,978	475
Per share - basic	**0.10**	0.06	(0.09)	0.09	0.01
Per share - diluted	**0.10**	0.06	(0.09)	0.09	0.01

For the periods ended ($ 000s except $ per share)	2016 Q4	2016 Q3	2016 Q2	2016 Q1
Revenue - oil and gas sales	48,967	46,236	41,150	33,510
Cash flow from operations	31,537	19,219	13,392	11,146
Net loss	(1,168)	(5,830)	(5,582)	(11,555)
Per share - basic	(0.03)	(0.18)	(0.17)	(0.35)
Per share - diluted	(0.03)	(0.18)	(0.17)	(0.35)

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 were 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 March 31, 2018 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, 2018.

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, 2018**	December 31, 2017
Assets			
Current			
Accounts receivable		**21,873**	20,536
Crude oil inventory		**607**	794
Prepaid expenses		**2,326**	2,535
Investments		**235**	274
		25,041	24,139
Investment in related party		**326**	476
Exploration and evaluation assets	3	**3,886**	4,217
Property, plant and equipment	4	**1,011,773**	995,075
Investment tax credit receivable	8	**8,834**	8,834
Goodwill		**92,810**	92,810
		1,142,670	1,125,551
Liabilities			
Current			
Accounts payable and accrued liabilities		**48,322**	26,130
Due to related party	5	**12,000**	12,000
Subordinated promissory note	6	**10,000**	12,500
Deferred consideration		**1,349**	1,299
		71,671	51,929
Bank debt	7	**291,994**	292,212
Deferred consideration		**14,371**	14,765
Decommissioning liabilities		**128,997**	126,631
Deferred tax liability	8	**131,397**	129,754
		638,430	615,291
Subsequent events	7, 11, 12		
Shareholders' equity			
Share capital	9	**763,977**	763,977
Contributed surplus		**26,275**	25,533
Accumulated other comprehensive income (loss)		**(503)**	(339)
Retained earnings (deficit)		**(285,509)**	(278,911)
		504,240	510,260
		1,142,670	1,125,551

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended March 31 (unaudited) ($ 000s, except $ per share)	Note	2018	2017
Revenue			
Oil and gas sales, net of royalties	10	**51,343**	45,923
Other income		**151**	55
Deferred consideration		**345**	-
		51,839	45,978
Expenses			
Production		**17,026**	14,625
Office and administration		**665**	606
Employee compensation		**1,365**	1,511
Finance costs		**5,236**	4,734
Share-option compensation		**742**	1,639
Depletion and depreciation	4	**21,450**	21,543
Exploration and evaluation	3	**291**	-
		46,775	44,658
Earnings before income taxes		**5,064**	1,320
Taxes			
Current income tax expense	8	**-**	-
Deferred income tax expense	8	**1,669**	845
		1,669	845
Net earnings for the period		**3,395**	475
Other comprehensive income (loss)			
Unrealized loss on investments		**(190)**	(401)
Deferred taxes on unrealized loss on investments		**26**	54
Other comprehensive loss for the period		**(164)**	(347)
Total comprehensive income for the period		**3,231**	128
Net earnings per share - basic and diluted	9	**0.10**	0.01
Comprehensive income per share - basic and diluted	9	**0.10**	0.00

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF CASH FLOW

For the three months ended March 31 (unaudited)

($ 000s)	Note	2018	2017
Operating activities			
Net earnings		**3,395**	475
Items not affecting cash			
Deferred income taxes		**1,669**	845
Deferred consideration		**(345)**	-
Share-option compensation		**742**	1,639
Depletion and depreciation		**21,450**	21,543
Exploration and evaluation expenditures		**291**	-
Unwinding of the discount on decommissioning liabilities		**757**	741
Investment income		**(13)**	(7)
Interest expense		**4,479**	3,993
Change in non-cash working capital accounts:			
Accounts receivable		**(2,249)**	(1,839)
Crude oil inventory		**66**	175
Prepaid expenses		**209**	476
Accounts payable and accrued liabilities		**4,115**	840
Decommissioning expenditures		**(210)**	(348)
Interest paid		**(4,479)**	(3,993)
Cash provided by operating activities		**29,877**	24,540
Financing activities			
Increase (Decrease) of bank debt		**(218)**	914
Subordinated promissory note		**(2,500)**	-
Stock option proceeds		**-**	143
Dividends		**(9,993)**	(9,992)
Cash used in financing activities		**(12,711)**	(8,935)
Investing activities			
Investment income received		**13**	7
Property, plant and equipment expenditures	4	**(36,168)**	(30,129)
Change in non-cash working capital accounts:			
Accounts payable and accrued liabilities		**18,077**	13,414
Accounts receivable		**912**	1,103
Cash used in investing activities		**(17,166)**	(15,605)
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, 2017	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
Share-option compensation			2,872			2,872
Comprehensive income (loss)				(406)	2,031	1,625
Dividends					(29,979)	(29,979)
December 31, 2017	33,310,796	763,977	25,533	(339)	(278,911)	510,260
Share-option compensation			742			742
Comprehensive income (loss)				(164)	3,395	3,231
Dividends					(9,993)	(9,993)
March 31, 2018	33,310,796	763,977	26,275	(503)	(285,509)	504,240

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

(2) Accumulated other comprehensive income is comprised 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, 2018 and December 31, 2017 and for the three months ended March 31, 2018 and March 31, 2017 (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 8, 2018.

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 2017 audited annual financial statements, except for as denoted below. These condensed financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the 2017 audited annual financial statements, which has been prepared in accordance with International Financial Reporting Standards (IFRS).

b) Adopted Accounting Pronouncements

As of January 1, 2018 The Company adopted IFRS 15 "Revenue from contracts with customers". IFRS 15 replaces the sections IAS 11 "Construction contracts", IAS 18 "Revenue" and related interpretations. IFRS 15 provides a single, principled-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive when control is transferred to the purchaser. This standard also requires expanded disclosure requirements. The standard is required to be adopted either retrospectively or using a modified retrospective approach.

Bonterra used the modified retrospectively approach to adopt the standard. Under this transitional provision, the cumulative effect of initially applying IFRS 15 is recognized on the date of initial application as an adjustment to retained earnings. No adjustment to retained earnings was required upon adoption of IFRS 15. The Company has reviewed its various revenue streams and underlying contracts with customers, and as result of this review, the adoptions of IFRS 15 did not have a material impact on the Company's statements of comprehensive income and financial position. However, the Company has expanded the disclosures in the notes to its financial statements as prescribed by IFRS 15, including disclosing the Company's disaggregated revenue streams by product type in Note 10. In addition, as a result of this adoption, the Company has revised the description of its accounting policy for revenue recognition as follows:

Revenue Recognition

Revenue associated with the sale of crude oil, natural gas and natural gas liquids is measured based on the consideration specified in contracts with customers. Revenue from contracts with customers is recognized when or as Bonterra satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. The transfer of control of oil, natural gas, natural gas liquids usually coincides with title passing to the customer and the customer taking physical possession. The Company principally satisfies its performance obligations at a point in time and the amounts of revenue recognized relating to performance obligations satisfied over time are not significant. Collection of Revenue associated with the sale of crude oil, natural gas and natural gas liquids occurs on or about the 25th of the month following production. Items such as royalties for crown, freehold, gross overriding (GORR) and Saskatchewan surcharge are netted against revenue. These items are netted to reflect the deduction for other parties' proportionate share of the revenue.

Administration fee income is recorded when management services and office administration are provided.

3. EXPLORATION AND EVALUATION ASSETS

($ 000s)	
Cost and carrying amount	
Balance at December 31, 2017	4,217
Transfers to property, plant and equipment	(40)
Expiry of exploration and evaluation assets	(291)
Balance at March 31, 2018	**3,886**

4. PROPERTY, PLANT AND EQUIPMENT

Cost ($ 000s)	**Oil and gas properties**	**Production facilities**	**Furniture fixtures & other equipment**	**Total property plant & equipment**
Balance at December 31, 2017	1,318,063	324,729	2,181	1,644,973
Additions	30,966	5,090	112	36,168
Transfers from exploration and evaluation assets	40	-	-	40
Adjustment to decommissioning liabilities (1)	1,819	-	-	1,819
Balance at March 31, 2018	**1,350,888**	**329,819**	**2,293**	**1,683,000**

Accumulated depletion and depreciation ($ 000s)	**Oil and gas properties**	**Production facilities**	**Furniture fixtures & other equipment**	**Total property plant & equipment**
Balance at December 31, 2017	(529,434)	(118,757)	(1,707)	(649,898)
Depletion and depreciation	(17,646)	(3,784)	(20)	(21,450)
Other	121	-	-	121
Balance at March 31, 2018	**(546,959)**	**(122,541)**	**(1,727)**	**(671,227)**

Carrying amounts as at: ($ 000s)				
December 31, 2017	788,629	205,972	474	995,075
March 31, 2018	**803,929**	**207,278**	**566**	**1,011,773**

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

The impairment of property, plant and equipment assets and any subsequent reversal of such impairment losses are recognized in the statement of comprehensive income or loss. There were no impairment losses or reversals recorded in the statement of comprehensive income for the three months ended March 31, 2018 and 2017.

5. TRANSACTIONS WITH RELATED PARTIES

As at March 31, 2018, the Company's CEO, Chairman of the Board and a major shareholder has loaned the Company \$12,000,000 (December 31, 2017 - \$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 2018 was $83,000 (March 31, 2017 - $61,000).

The Company provides executive and marketing services for Pine Cliff Energy Ltd. (Pine Cliff). All services that were performed were charged at estimated fair value. As at March 31, 2018, the Company had an account receivable from Pine Cliff of $22,000 (December 31, 2017 – $36,000).

6. SUBORDINATED PROMISSORY NOTE

As at March 31, 2018, Bonterra had $10,000,000 (December 31, 2017 - $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 $137,000 (March 31, 2017 - $154,000). On February 9, 2018 the Company repaid $2,500,000.

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.

7. BANK DEBT

As at March 31, 2018, the Company has a bank facility of $380,000,000 (December 31, 2017 - $380,000,000). Comprised of a $330,000,000 syndicated revolving credit facility and a $50,000,000 non-syndicated revolving credit facility. The amount drawn under the bank facility at March 31, 2018 was $291,994,000 (December 31, 2017 - $292,212,000). The amounts borrowed under the bank facility bears 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 bank facility 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 limit of the bank facility is reviewed semi-annually on or before April 30 and October 31 and based on the lender's interpretation of the Company's reserves, future commodity prices and costs. Effective April 30, 2018 the Company renewed its bank facility under similar terms and conditions with the exception of extending the revolving period to April 29, 2019, a maturity date of April 30, 2020 and interest will bear a floating rate based on the applicable Canadian prime rate or Banker's Acceptance rate, plus between 0.50 percent and 3.50 percent, depending on the type of borrowing and the Company's consolidated debt to EBITDA ratio.

The amount available for borrowing under the bank facility is reduced by outstanding letters of credit. Letters of credit totaling $900,000 were issued as at March 31, 2018 (December 31, 2017 - $900,000). Security for the bank facility consists of various and floating demand debentures totaling $750,000,000 (December 31, 2017 - $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 bank facility:

- The Company cannot exceed $380,000,000 in consolidated debt (excluding accounts payable and accrued liabilities). As at March 31, 2018 consolidated debt is $313,994,000.
- 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 25 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, 2018, the Company is in compliance with all covenants.

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	7-100	91,678
Share issue costs	20	69
Canadian oil and gas property expenditures	10	128,610
Canadian development expenditures	30	141,002
Canadian exploration expenditures	100	8,063
Federal income tax losses carried forward[1]	100	46,105
Provincial income tax losses carried forward[2]	100	7,688
		423,215

[1] Federal income tax losses carried forward expire in the following years; 2035 - $10,035,000; 2036 - $35,853,000; 2037 - $217,000
[2] Provincial income tax losses carried forward expire in 2036 - $7,471,000; 2037 - $217,000

The Company has $8,834,000 (December 31, 2017 - $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, 2017 - $64,435,000) of capital losses carried forward which can only be claimed against taxable capital gains.

9. SHAREHOLDERS' EQUITY

Authorized

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

Issued and fully paid - common shares	**Number**	**Amount ($ 000s)**
Balance, March 31, 2018 and December 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 are as follows:

	2018	2017
Basic shares outstanding	**33,310,796**	33,305,857
Dilutive effect of share options[1]	**-**	108,530
Diluted shares outstanding	**33,310,796**	33,414,387

[1] The Company did not include 2,708,000 share options for the three months ended March 31, 2018 (March 31, 2017 – 2,081,000) in the dilutive effect of share options calculations as these share options were anti-dilutive.

For the three months ended March 31, 2018, the Company declared and paid dividends of $9,993,000 ($0.30 per share) (March 31, 2017 - $9,992,000 ($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, 2017 – 3,331,080 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 options as of March 31, 2018 and changes during the period ended are presented below:

	Number of options	**Weighted average exercise price**
At January 1, 2018	2,806,000	$19.48
Options forfeited	(5,000)	25.80
Options expired	(93,000)	49.47
At March 31, 2018	2,708,000	$18.44

The following table summarizes information about options outstanding and exercisable as at March 31, 2018:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable	Weighted-average exercise price
$ 14.00 - $ 20.00	1,829,000	2.0 years	$ 14.70	-	$ -
20.01 - 30.00	856,000	0.5 years	25.75	840,000	25.78
30.01 - 55.00	23,000	0.4 years	44.18	15,000	50.67
$ 14.00 - $ 55.00	2,708,000	1.5 years	$ 18.44	855,000	$ 26.22

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, 2018, the Company did not grant any options.

10. OIL AND GAS SALES, NET OF ROYALTIES

($ 000s)	**March 31, 2018**	March 31, 2017
Oil and gas sales		
Crude oil	**49,009**	41,053
Natural gas liquids	**3,135**	2,455
Natural gas	**4,980**	5,822
	57,124	49,330
Less royalties:		
Crown	**(3,807)**	(2,355)
Freehold, gross overriding royalties and other	**(1,974)**	(1,052)
	(5,781)	(3,407)
Oil and gas sales, net of royalties	**51,343**	45,923

11. FINANCIAL RISK MANAGEMENT

The Company is exposed to credit risk, liquidity risk and market risk as part of its normal course of business. The Company's overall risk management program seeks to mitigate these risks and reduce the volatility on the Company's financial performance. Financial risk is managed by senior management under the direction of the Board of Directors. Bonterra's exposure to credit risk, liquidity risk and market risk are consistent with those discussed in note 21 of the Company's audited annual financial statements for the year ended December 31, 2017.

Physical Delivery Sales Contracts

Bonterra enters into physical delivery sales contracts to manage commodity price risk. These contracts are considered normal executory sales contracts and are not recorded at fair value in the financial statements. At March 31, 2018, the Company had the following physical delivery sales contracts in place:

Product	Type of contract	Volume	Term	Contract price
Oil	Fixed price - WTI[1]	500 BBL/day	January 1 to March 31, 2018	$57.19 US/BBL
Oil	Basis Differential WTI[1][3]	500 BBL/day	January 1 to March 31, 2018	$(2.80) US/BBL
Oil	Fixed price - WTI[1]	500 BBL/day	January 1 to June 30, 2018	$59.55 US/BBL
Oil	Costless physical oil collar - WTI[1]	1,000 BBL/day	April 1 to June 30, 2018	Floor price $57.00 US/BBL Ceiling price $71.65 US/BBL
Gas	Costless physical gas collar - AECO[4]	5,000 GJ/day	April 1 to June 30, 2018	Floor price $0.80 $Cdn/GJ Ceiling price $1.23 $Cdn/GJ

(1) WTI refers to West Texas Intermediate, a grade of light sweet crude oil used as benchmark pricing in the United States.
(2) "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.
(3) Basis differential is the difference between WTI and MSW steam index.
(4) AECO refers to Alberta Energy Company; a grade or heating content of natural gas used as benchmark pricing in Alberta, Canada.

The Company has entered into the following physical delivery sales contracts subsequent to March 31, 2018:

Product	Type of contract	Volume	Term	Contract price
Oil	Costless physical oil collar - WTI	1,000 BBL/day	April 1 to June 30, 2018	Floor price $57.00 US/BBL Ceiling price $71.40 US/BBL

12. SUBSEQUENT EVENTS

Dividends

Subsequent to March 31, 2018, the Company declared the following dividends:

Date declared	Record date	$ per share	Date payable
April 2, 2018	April 16, 2018	0.10	April 30, 2018
May 1, 2018	May 15, 2018	0.10	May 31, 2018

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
Odyssey Trust Company

Auditors
Deloitte LLP

Solicitors
Borden Ladner Gervais LLP

Bankers
CIBC
National Bank of Canada
The Toronto Dominion Bank
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