Bonterra Energy Corp. **Q2** And the Six Months ended June 30, 2015

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BONTERRA ENERGY REPORTS SECOND QUARTER AND SIX MONTH 2015 FINANCIAL AND OPERATING RESULTS

HIGHLIGHTS

		Three months ended		Six Months ended	
As at and for the periods ended ($ 000s except for $ per share)		**June 30, 2015**	June 30, 2014	**June 30, 2015**	June 30, 2014
FINANCIAL					
Revenue – realized oil and gas sales [(1)]		**57,921**	99,274	**100,401**	181,795
Funds flow [(1)(3)]		**43,058**	65,620	**65,148**	120,034
Per share – basic		**1.34**	2.06	**2.03**	3.77
Per share – diluted		**1.34**	2.04	**2.03**	3.74
Payout ratio		**34%**	42%	**52%**	46%
Cash flow from operations		**17,960**	57,089	**44,039**	106,183
Per share – basic		**0.56**	1.79	**1.37**	3.33
Per share – diluted		**0.56**	1.78	**1.37**	3.31
Payout ratio		**81%**	49%	**77%**	52%
Cash dividends per share		**0.45**	0.87	**1.05**	1.74
Net earnings (loss)		**(2,711)**	27,614	**(4,646)**	50,655
Per share – basic		**(0.08)**	0.87	**(0.14)**	1.59
Per share – diluted		**(0.08)**	0.86	**(0.14)**	1.58
Capital expenditures net of dispositions		**13,952**	38,466	**35,712**	92,702
Acquisition[(2)]		**153,230**	-	**170,430**	-
Total assets				**1,225,291**	1,066,145
Working capital deficiency				**27,558**	36,399
Long-term debt				**361,430**	151,145
Shareholders' equity				**599,911**	699,284
OPERATIONS					
Oil	-barrels per day [(1)]	**8,823**	9,109	**8,478**	8,342
	-average price ($ per barrel)	**64.27**	102.36	**56.85**	99.73
NGLs	-barrels per day [(1)]	**677**	775	**734**	748
	-average price ($ per barrel)	**21.35**	53.50	**21.89**	60.36
Natural gas	-MCF per day [(1)]	**19,452**	24,163	**19,580**	23,240
	-average price ($ per MCF)	**2.83**	4.85	**2.90**	5.48
Total barrels of oil equivalent per day (BOE) [(1)(4)]		**12,743**	13,911	**12,475**	12,964

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

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

(3) 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.

(4) 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 operational results for the second quarter and six month period ending June 30, 2015.

Clearly 2015 has been a challenging period for the Canadian oil and gas industry driven by factors beyond our control. In addition to low oil prices, Bonterra has also faced lower than expected production volumes totaling approximately 1,200 BOE per day for the first half of 2015. The reduced volumes have resulted from pipeline restrictions on the TransCanada pipeline system, insufficient natural gas processing capacity, delaying the completion of wells due to low oil prices and the voluntary shut-in of wells. Late in the second quarter the majority of the affected volumes have been brought back on stream due to higher oil prices in June and by redirecting to alternative gas plants.

As a result of these issues, Bonterra has experienced reductions in funds flow from operations, leading to the monthly dividend being reduced from $0.30 to $0.15 per share commencing with the January 2015 dividend and the 2015 projected development capital expenditure budget being set at $58 million compared to actual expenditures of $156 million in 2014.

Several other factors are combining to further affect funds flow and share prices of resource corporations. These include the impact of a corporate Provincial income tax increase of 20 percent, which negatively impacted net earnings to a reported loss for the three and six month periods of 2015, as well as the uncertainty surrounding the Alberta royalty review and a potential implementation of a carbon tax.

Successful Cost Cutting Measures

Bonterra cannot control the commodity prices nor the Alberta Provincial government actions. Bonterra, however, can impact funds flow by reducing costs and being well positioned to increase operational activities when commodity prices increase.

During the first half of 2015, the Company reduced its per well drilling and completion costs by approximately 25 percent, operating costs per BOE by approximately 14 percent and general and administrative costs per BOE by approximately 38 percent.

Managing Debt Levels

During the first six months of 2015 the Company acquired additional properties in the Pembina Cardium field at a cost of $170.4 million. This acquisition accounted for almost the entire debt increase from $208 million at December 31, 2014 to $389 million at June 30, 2015. As a result, our twelve month trailing funds flow ratio increased to 2.5 to 1.0 times at June 30, 2015 compared to 1.0 to 1.0 times at December 31, 2014. Based on Bonterra's Q2 2015 annualized funds flow and net debt at June 30, 2015, the debt to funds flow ratio is 2.3 to 1.0.

In July 2015 the Company issued by private placement a total of 973,812 common shares to existing shareholders at a price of $32.00 per share for proceeds of approximately $31 million after costs. This fundraising will assist in further future reductions of the debt to funds flow ratio.

Positive Operational Results

With innovations and modifications in drilling and completion techniques Bonterra has improved initial production volumes, estimated ultimate recoveries and reduced well costs for its 2015 drilled locations.

Bonterra has fully integrated the Pembina acquisition by optimizing production and reducing operating costs. Production volumes are higher than anticipated and operating costs are lower than expected. We believe we can further reduce operating costs by undertaking facility consolidations and improve production volumes through horizontal development and water flood optimization.

The Company anticipates that it will be successful in meeting its 2015 average production volume guidance of 12,800 BOE per day.

Outlook

Bonterra will continue to assess its activity levels on an ongoing basis, but does not anticipate reducing the monthly dividend amount during Q3 2015. The Company will continue to monitor the dividend in the context of commodity prices, production volumes, funds flow and debt levels.

Capital expenditures will also be monitored on an ongoing basis and be increased or decreased in accordance with changes in oil prices and funds flow.

By applying the Company's June 30, 2015 production revenue of $44.57 per BOE and total corporate costs for royalties, operating costs, general and administrative and interest costs of $18.84 per BOE, this results in overall funds flow from operations of approximately $120 million for a twelve month period. Funding the dividend at $0.15 per month for twelve months requires approximately $59 million resulting in $61 million available to be used for capital expenditures or when prices increase for a combination of capital expenditures and dividend increases.

Another important advantage for Bonterra is that it has an inventory of undrilled Cardium locations that will last for 14 years. It is a difficult time for our industry, but survival is not an issue for Bonterra.

We believe that oil prices are unsustainable at current levels and it is our hope that the Alberta government will recognize that supporting a strong and competitive oil and gas industry benefits not only all Albertans but Canada as well.

Thank you all for your patience and support during these troubled times.

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

Management's Discussion and Analysis

The following report dated August 12, 2015 is a review of the operations and current financial position for the six months ended June 30, 2015 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, 2014 presented under International Financial Reporting Standards (IFRS).

Use of Non-IFRS Financial Measures

Throughout this Management's Discussion and Analysis (MD&A) the Company uses the terms "payout ratio", "cash netback" and "net debt" to analyze operating performance, which are not standardized measures recognized under IFRS and do not have a standardized meaning prescribed by IFRS. These measures are commonly used in the oil and gas industry and are considered informative by management, shareholders and analysts. These measures may differ from those made by other companies and accordingly may not be comparable to such measures as reported by other companies.

The Company calculates payout ratio as a percentage by dividing cash dividends paid to shareholders by cash flow from operating activities, both of which are measures prescribed by IFRS which appear on our statements of cash flows. We calculate cash netback by dividing various financial statement items as determined by IFRS by total production for the period on a barrel of oil equivalent basis.

Frequently Recurring Terms

Bonterra uses the following frequently recurring terms in this MD&A: "WTI" refers to West Texas Intermediate, a grade of light sweet crude oil used as benchmark pricing in the United States; "MSW Stream Index" or "Edmonton Par" refers to the mixed sweet blend that is the benchmark price for conventionally produced light sweet crude oil in Western Canada; "bbl" refers to barrel; "NGL" refers to Natural gas liquids; "MCF" refers to thousand cubic feet; "MMBTU" refers to million British Thermal Units; and "BOE" refers to barrels of oil equivalent. Disclosure provided herein in respect of a BOE may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 MCF: 1 bbl is based on an energy conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Numerical Amounts

The reporting and the functional currency of the Company is the Canadian dollar.

QUARTERLY COMPARISONS

	2015		2014			
As at and for the periods ended ($ 000s except $ per share)	**Q2** [(1)]	Q1	Q4	Q3	Q2	Q1
Financial						
Revenue – oil and gas sales	**57,921**	42,480	68,940	88,959	99,274	82,521
Cash flow from operations	**17,960**	26,079	50,465	65,705	57,089	49,094
Per share – basic	**0.56**	0.81	1.57	2.05	1.79	1.56
Per share – diluted	**0.56**	0.81	1.57	2.03	1.78	1.55
Payout ratio	**81%**	74%	57%	44%	49%	56%
Cash dividends per share	**0.45**	0.60	0.90	0.90	0.87	0.87
Net earnings (loss)	**(2,711)**	(1,935)	(32,877) [(4)]	20,983	27,614	23,041
Per share – basic	**(0.08)**	(0.06)	(1.04)	0.65	0.87	0.73
Per share – diluted	**(0.08)**	(0.06)	(1.03)	0.65	0.86	0.73
Capital expenditures and acquisitions, net of dispositions	**167,182** [(2)]	38,960 [(3)]	20,605	41,205	39,519	54,236
Total assets	**1,225,291**	1,072,534	1,042,938	1,080,801	1,066,145	1,043,822
Working capital deficiency	**27,558**	37,633	53,642	55,047	36,399	62,488
Long-term debt	**361,430**	207,217	154,723	140,339	151,145	143,103
Shareholders' equity	**599,911**	613,886	635,198	697,337	699,284	678,224
Operations						
Oil (barrels per day)	**8,823**	8,128	8,762	8,874	9,109	7,567
NGLs (barrels per day)	**677**	791	911	818	775	721
Natural gas (MCF per day)	**19,452**	19,709	22,883	21,981	24,163	22,307
Total BOE per day	**12,743**	12,204	13,488	13,355	13,911	12,006

(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 June 30, 2015. Production includes 76 days for the Pembina Assets and 91 days for Bonterra.

(2) Includes $153,230,000 (less a deposit of $17,200,000) for the Acquisition that closed on April 15, 2015 and capital expenditures of $13,952,000.

(3) Includes a deposit of $17,200,000 for the Acquisition and capital expenditures of $21,760,000.

(4) Net loss in the fourth quarter of 2014 is primarily due to an increase in deferred tax expense as a result of an agreement with Canada Revenue Agency.

	2013			
As at and for the periods ended ($ 000s except $ per share)	Q4	Q3	Q2	Q1 [5]
Financial				
Revenue – oil and gas sales	70,917	78,946	79,344	66,468
Cash flow from operations	47,772	43,953	41,445	40,726
Per share – basic	1.53	1.41	1.35	1.47
Per share – diluted	1.52	1.40	1.35	1.46
Payout ratio	56%	60%	62%	53%
Cash dividends per share	0.85	0.84	0.84	0.80
Net earnings	15,254	19,690	15,119	12,695
Per share – basic	0.50	0.63	0.49	0.46
Per share – diluted	0.49	0.63	0.49	0.46
Capital expenditures and acquisitions, net of dispositions	25,965	34,025	9,731	39,506 [6]
Total assets	1,000,531	1,002,773	987,067	1,016,594
Working capital deficiency	35,895	43,681	26,824	31,519
Long-term debt	156,764	147,189	179,379	189,509
Shareholders' equity	667,641	671,528	648,574	658,062
Operations				
Oil (barrels per day)	7,964	7,310	8,414	7,459
NGLs (barrels per day)	691	772	782	732
Natural gas (MCF per day)	22,802	22,274	20,554	22,176
Total BOE per day	12,456	11,794	12,621	11,887

(5) Quarterly figures for Q1 2013 include the results of a corporate acquisition, for the period of January 25, 2013 to March 31, 2013. Production includes 65 days for the acquired properties and 90 days for Bonterra.

(6) Includes the corporate acquisition that closed on January 25, 2013 that included $10,000,000 of acquired cash that reduced capital expenditures from $49,506,000.

Business Environment and Sensitivities

Bonterra's financial results are significantly influenced by fluctuations in commodity prices, including price differentials. The following table depicts selective market benchmark prices and foreign exchange rates in the last eight quarters to assist in understanding volatility in prices and foreign exchange rates that have impacted Bonterra's financial and operating performance. The increases or decreases for Bonterra's realized price for oil and natural gas for each of the eight quarters is explained in detail in the following table.

	Q2-2015	Q1-2015	Q4-2014	Q3-2014	Q2-2014	Q1-2014	Q4-2013	Q3-2013
Crude oil								
WTI (U.S.$/bbl)	**57.94**	48.63	73.15	97.17	102.99	98.68	97.44	105.82
WTI to MSW Stream Index Differential (U.S.$/bbl)[1]	**(2.93)**	(6.93)	(6.46)	(7.93)	(6.14)	(8.25)	(14.93)	(4.72)
Foreign exchange								
U.S.$ to Cdn$	**1.2294**	1.2411	1.1357	1.0893	1.0905	1.1035	1.0498	1.0385
Bonterra average realized price (Cdn$/bbl)	**64.27**	48.70	71.37	92.73	102.36	96.53	80.88	103.30
Natural gas								
AECO (Cdn$/mcf)	**2.64**	2.74	3.58	4.00	4.67	5.69	3.52	2.43
Bonterra average realized price (Cdn$/mcf)	**2.83**	2.97	3.92	4.54	4.85	6.16	3.85	2.71

(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, some of which are:

- Worldwide crude oil supply and demand imbalance;
- Geo-political events that affect worldwide crude oil production;
- North American production trends;
- The reduced value of the Canadian dollar compared to the U.S. dollar continues to positively affect Bonterra's realized prices;
- Whether there is sufficient take-away capacity to transport energy commodities;
- Timing of plant and refinery turnarounds;
- Voluntary delays in drilling and completing wells; and
- Voluntary reduction of production volumes.

The following chart shows the Company's sensitivity to key commodity price variables. The sensitivity calculations are performed independently showing the effect of the change of one variable; with all other variables being held constant.

Annualized sensitivity analysis on cash flow, as estimated for 2015[1]			
Impact on cash flow	Change ($)	$000s	$ per share[2]
Realized crude oil price ($/bbl)	1.00	2,983	0.09
Realized natural gas price ($/mcf)	0.10	701	0.02
U.S.$ to Canadian $ exchange rate	0.01	1,283	0.04

(1) This analysis uses current royalty rates, annualized estimated average production of 12,800 BOE per day and no changes in working capital
(2) Based on annualized basic weighted average shares outstanding of 32,641,855

Business Overview, Strategy and Key Performance Drivers

Bonterra's second quarter results improved compared to Q1 2015 due to higher commodity prices resulting in Bonterra's realized prices increasing by 29 percent. With increased commodity prices the Company continued with its capital program by drilling 4 gross (3.9 net) wells and completing and tying-in 8 gross (7.9 net) wells that were drilled prior to the second quarter, but not completed or tied-in during the first quarter due to the lower commodity prices. With increased commodity prices the Company commenced production from its previously shut-in wells.

On April 15, 2015, the Company acquired certain oil and gas assets (the "Pembina Assets") from a senior oil and gas producer (the "Acquisition"). The Pembina Assets are Cardium focused in the Pembina Area of Alberta, with a production base that is complementary to current Bonterra acreage, and which provides additional inventory of long-term drilling locations. Consideration for the Pembina Assets was $170,430,000. With the close of the Acquisition, the Company renewed its credit facilities with its syndicate of lenders (the "Lenders") and increased the commitment on the existing credit facilities to $425 million from $250 million.

If Bonterra had closed the Acquisition on January 1, 2015, the Pembina Assets would have added approximately 1,740 BOE per day of production. The combined production for the Company for the first six months would have been 13,464 BOE per day. The Pembina Assets are approximately 86% oil and NGL weighted with a low decline rate of seven percent. These assets also include 132 net future potential drilling locations and supporting infrastructure. For more information about the Acquisition, refer to Note 3 of the June 30, 2015 condensed financial statements.

The Company averaged 12,475 BOE per day for the first six months, which was lower than expected by approximately 1,200 BOE per day for the first half of 2015 due to the shut-in production from non-operated facility turnarounds, oil apportionments and gas capacity restrictions imposed by Trans Canada Pipelines and further restrictions at non-operated gas plants. The Company has brought the majority of this shut-in production back on during the quarter as a result of redirecting solution gas to alternative gas plants and reactivating some of its voluntary shut-in production due to the increase in commodity prices. With the majority of the shut-in issues addressed, as well as the impact of the Acquisition and Bonterra's capital program, the Company is estimating that its average annual production for 2015 will be approximately 12,800 BOE per day.

Bonterra spent $35,712,000 on its capital program, primarily on the drilling of 11 gross (9.3 net) operated wells and completing and tying-in 17 gross (15.3 net) wells (of which 10 wells were drilled in 2014). Due to lower commodity prices during the period the Company has experienced lower costs from service providers. The average cost per mile long well has decreased by an average of $720,000 or 25 percent per well from the same six month period a year ago. Bonterra also added field compression to redirect gas production in the Carnwood area to its two wholly owned plants. The compressors cannot fully redirect gas production until a downstream non-operated meter station is expanded. This expansion is anticipated to occur in the latter half of 2015 and should further reduce a significant portion of the shut-in issues experienced in the first six months of 2015. Operating costs have been reduced by approximately 17 percent and general and administrative costs by approximately 41 percent.

The Company currently anticipates spending $58 million (excluding the Acquisition) on its development capital program for 2015. The Company continues to evaluate on a month by month basis depending on commodity prices.

Bonterra's successful operations are dependent upon several factors, including but not limited to, the price of energy commodity products, efficiently managing capital spending, 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						Six months ended			
	June 30, 2015		March 31, 2015		June 30, 2014		**June 30, 2015**		June 30, 2014	
	Gross[(1)]	**Net[(2)]**	Gross[(1)]	Net[(2)]	Gross[(1)]	Net[(2)]	**Gross[(1)]**	**Net[(2)]**	Gross[(1)]	Net[(2)]
Crude oil horizontal-operated	**4**	**3.9**	7	5.4	9	8.9	**11**	**9.3**	24	23.8
Crude oil horizontal-non-operated	**-**	**-**	1	0.1	1	0.1	**1**	**0.1**	9	2.4
Total	**4**	**3.9**	8	5.5	10	9.0	**12**	**9.4**	33	26.2
Success rate		**100%**		100%		100%		**100%**		100%

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

During the first quarter of 2015, the Company placed 6 gross (5.9 net) wells on production that were drilled in the later part of 2014, drilled 11 gross (9.3 net) wells during the first six months of 2015, of which 7 (5.4 net) were placed on production with the remaining 4 wells scheduled to be on production in the third quarter of 2015. As well, 1 gross (0.01 net) non-operated well was drilled and placed on production during the period.

Production

	Three months ended			Six months ended	
	June 30, 2015	March 31, 2015	June 30, 2014	**June 30, 2015**	June 30, 2014
Crude oil (barrels per day)	**8,823**	8,128	9,109	**8,478**	8,342
NGLs (barrels per day)	**677**	791	775	**734**	748
Natural gas (MCF per day)	**19,452**	19,709	24,163	**19,580**	23,240
Average BOE per day	**12,743**	12,204	13,911	**12,475**	12,964

Production volumes during the first half of 2015 decreased to 12,475 BOE per day compared to 12,964 BOE per day during the same period in 2014. The decrease in production is primarily due to approximately 1,200 BOE per day being shut-in due to non-operated facility turnarounds, oil apportionments and gas capacity restrictions imposed by Trans Canada Pipelines. In addition, significantly reduced capital spending in the first six months of 2015 due to decreased commodity prices compared to the same period a year ago reduced the number of new wells drilled. This has been partially offset by the Pembina Assets production in the second quarter of 2015. Quarter over quarter, production volumes increased by 539 BOE per day despite the shut-in production issues the Company experienced. This increase is due to the Acquisition as well as higher commodity pricing in Q2 2015 compared to Q1 2015 which led to more new wells being placed on production.

Cash Netback

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

	Three months ended			Six months ended	
$ per BOE	**June 30, 2015**	March 31, 2015	June 30, 2014	**June 30, 2015**	June 30, 2014
Production volumes (BOE)	**1,159,570**	1,098,375	1,265,910	**2,257,945**	2,346,485
Gross production revenue	**$49.95**	$38.68	$78.42	**$44.47**	$77.48
Royalties	**(2.79)**	(3.18)	(9.21)	**(2.98)**	(9.00)
Production costs	**(12.01)**	(11.93)	(13.98)	**(11.97)**	(13.94)
Field netback	**$35.15**	$23.57	$55.23	**$29.52**	$54.54
General and administrative	**(1.52)**	(1.50)	(2.63)	**(1.51)**	(2.47)
Interest and other	**(3.41)**	(1.29)	(1.12)	**(2.38)**	(1.09)
Cash netback	**$30.22**	$20.78	$51.48	**$25.63**	$50.98

Cash netbacks have decreased in the first six months of 2015 compared to the first six months of 2014 primarily due to lower commodity prices and a marginal increase in interest expense, which was partially offset by lower royalties, production costs and general and administration costs. Quarter over quarter cash netbacks increased due to higher crude oil commodity prices.

Oil and Gas Sales

	Three months ended			Six months ended	
	June 30, 2015	March 31, 2015	June 30, 2014	**June 30, 2015**	June 30, 2014
Revenue – oil and gas sales ($ 000s)	**57,921**	42,480	99,274	**100,401**	181,795
Average Realized Prices:					
Crude oil ($ per barrel)	**64.27**	48.70	102.36	**56.85**	99.73
NGLs ($ per barrel)	**21.35**	22.36	53.50	**21.89**	60.36
Natural gas ($ per MCF)	**2.83**	2.97	4.85	**2.90**	5.48
Average ($ per BOE)	**49.95**	38.68	78.42	**44.47**	77.48

Revenue from oil and gas sales decreased by $81,394,000 in the first half of 2015 or 45 percent compared to 2014. This decrease was primarily due to a 43 percent decrease in commodity prices on a per BOE basis.

The quarter over quarter increase in oil and gas sales of $15,441,000 or 36 percent was primarily due to increased oil prices and production volumes.

The Company's product split on a revenue basis for 2015 is approximately 87 percent weighted towards crude oil and NGLs.

Royalties

($ 000s)	Three months ended June 30, 2015	March 31, 2015	June 30, 2014	Six months ended June 30, 2015	June 30, 2014
Crown royalties	**1,664**	2,044	7,480	**3,708**	12,713
Freehold, gross overriding and other royalties	**1,570**	1,444	4,177	**3,014**	8,410
Total royalties	**3,234**	3,488	11,657	**6,722**	21,123
Crown royalties - percentage of revenue	**2.9**	4.8	7.5	**3.7**	7.0
Freehold, gross overriding and other royalties - percentage of revenue	**2.7**	3.4	4.2	**3.0**	4.6
Royalties – percentage of revenue	**5.6**	8.2	11.7	**6.7**	11.6
Royalties $ per BOE	**2.79**	3.18	9.21	**2.98**	9.00

Royalties paid by the Company consist of crown royalties paid to the Provinces of Alberta, Saskatchewan and British Columbia. The Company's average crown royalty rate is approximately 3.7 percent for 2015 compared to 7.0 percent for 2014. The decrease in the crown royalty rate was primarily due to decreased commodity prices. The quarter over quarter crown royalty rate decrease is due to a further 36 percent drop in the Alberta crown reference price for oil used to calculate crown royalties. The drop in the reference price combined with an increase in the crude oil prices in the second quarter caused the crown royalty rate as a percentage of revenue to decrease.

Non-crown royalties decreased for the second quarter and the first six months of 2015 compared to the same periods in 2014, primarily due to the Company drilling the majority of its new wells on crown lands compared to freehold lands.

Production Costs

($ 000s except $ per BOE)	Three months ended June 30, 2015	March 31, 2015	June 30, 2014	Six months ended June 30, 2015	June 30, 2014
Production costs	**13,923**	13,100	17,694	**27,023**	32,719
$ per BOE	**12.01**	11.93	13.98	**11.97**	13.94

Production costs on a per BOE basis for the first six months of 2015 decreased 14 percent from the comparable period in 2014. Production costs have decreased as a result of a reduction in rates charged by service companies, a general reduction in well maintenance and chemical costs due to a milder winter, lower production volumes, less facility equalizations and turnarounds and lower freehold mineral taxes due to lower commodity prices.

Quarter over quarter on a BOE basis, production costs remained relatively unchanged. This is primarily due to a reduction in well maintenance costs and freehold mineral taxes, offset by an increase in production costs on a BOE basis from the Pembina Assets. The Pembina Assets currently have higher operating costs due to the low production from individual vertical wells and a water flood program. The higher costs per BOE in this area are expected to drop as Bonterra gains efficiencies from reduced trucking, water flood support and lower operating labour costs.

Other Income

	Three months ended			Six months ended	
	June 30,	March 31,	June 30,	**June 30,**	June 30,
($ 000s)	**2015**	2015	2014	**2015**	2014
Investment income	**69**	96	15	**165**	33
Administrative income	**17**	29	15	**46**	206
Gain on sale of properties	**-**	-	90	**-**	671
Reailzed gain on investments	**-**	-	169	**-**	169
	86	125	289	**211**	1,079

In January 2014, the Company sold a portion of its undeveloped land in the Willesden Green area for cash proceeds of $1,000,000. At the time of disposition, the Company had a carrying value of $419,000 for exploration and evaluation expenditures, resulting in a gain on sale of $581,000.

The market value of the investments held by the Company is $14,703,000 at June 30, 2015 (June 30, 2014 - $9,751,000). The increase in carrying value is mainly due to the $12,221,000 of investments purchased by the Company during the first half of 2015, partially offset by investments sold in the period for proceeds of $6,883,000 resulting in a gain on sale of $1,546,000 which was recorded as an equity transfer between accumulated other comprehensive income and retained earnings and not recorded in profit and loss. This was due to the Company early adopting IFRS 9 “Financial Instruments” (see Financial Reporting Update).

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

General and Administration (G&A) Expense

	Three months ended			Six months ended	
	June 30,	March 31,	June 30,	**June 30,**	June 30,
($ 000s except $ per BOE)	**2015**	2015	2014	**2015**	2014
Employee compensation expense	**1,070**	712	1,977	**1,782**	3,907
Office and administration expense	**697**	932	1,350	**1,629**	1,887
Total G&A expense	**1,767**	1,644	3,327	**3,411**	5,794
$ per BOE	**1.52**	1.50	2.63	**1.51**	2.47

The decrease in employee compensation expense of $2,125,000 for 2015 compared to 2014 is primarily due to a decrease in accrued bonuses that resulted from lower net earnings before income taxes. The quarter over quarter increase is primarily due to an increase in accrued bonuses that resulted from increased net earnings before income taxes primarily as a result of a partial recovery of crude oil commodity prices in the second quarter. 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 interest of the employees with that of the shareholders.

The decrease in office and administration expense for 2015 compared to 2014 related to a decrease in engineering technical fees, allowance for doubtful accounts and higher stock exchange fees in 2014. This was partially offset by increased bank fees as a result of increased credit facilities, higher computer software costs and an increase in consulting fees. The decrease quarter over quarter relates primarily to an increase in overhead recoveries due to reactivating shut-in production and a decrease in the allowance for doubtful accounts. This was partially offset by an increase in G&A costs relating to the Acquisition.

Finance Costs

($ 000s except $ per BOE)	Three months ended **June 30, 2015**	March 31, 2015	June 30, 2014	Six months ended **June 30, 2015**	June 30, 2014
Interest on long-term debt	**3,018**	1,180	1,081	**4,198**	2,097
Other interest	**1,025**	363	370	**1,388**	712
Interest expense	**4,043**	1,543	1,451	**5,586**	2,809
$ per BOE	**3.49**	1.40	1.15	**2.47**	1.20
Unwinding of the discounted value of decommissioning liabilities	**469**	391	313	**860**	593
Total finance costs	**4,512**	1,934	1,764	**6,446**	3,402

Interest on long-term debt increased $2,101,000 in 2015 compared to the same period in 2014 as the Company increased the bank debt outstanding by $206,707,000 from the end of 2014. The bank debt increase incurred in the second quarter related to the Acquisition. The Company's bank interest rate increased in the second quarter due to a higher net debt to cash flow ratio. Interest rates are determined by net debt to cash flow ratio on a trailing quarterly basis.

Other interest relates to amounts paid to related party (see related party transactions) and a $35,000,000 subordinated promissory note from a private investor and a one-time interest charge of $694,000 paid to the vendor for the Acquisition for the period January 1, 2015 to April 15, 2015. On July 21, 2015 the Company repaid $5,000,000 on the subordinated promissory note.

A one percent increase (decrease) in the Canadian prime rate would decrease (increase) both annual net earnings and comprehensive income by approximately $2,726,000.

Share-Option Compensation

($ 000s)	Three months ended **June 30, 2015**	March 31, 2015	June 30, 2014	Six months ended **June 30, 2015**	June 30, 2014
Share-option compensation	**997**	765	622	**1,762**	940

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 $822,000 from the same period a year ago due to the Company granting the majority of its options in the second and third quarter in 2014.

Based on current outstanding options, the Company has an unamortized expense amount of $4,526,000, of which $1,722,000 will be recorded for the remainder of 2015, $2,313,000 for 2016, $487,000 for 2017 and $4,000 for 2018. For more information about options issued and outstanding, refer to Note 10 of the June 30, 2015 condensed financial statements.

Depletion and Depreciation, Exploration and Evaluation and Goodwill

($ 000s)	Three months ended **June 30, 2015**	March 31, 2015	June 30, 2014	Six months ended **June 30, 2015**	June 30, 2014
Depletion and depreciation	**24,898**	23,891	27,788	**48,789**	51,603
Exploration and evaluation	**-**	-	4	**-**	28

Provision for depletion and depreciation for the first six months of 2015 decreased by $2,815,000 compared to the same period a year ago. The decrease in depletion and depreciation is primarily due to a decrease in production volumes. The quarter over quarter increase in the provision was primarily due to an increase in production volumes and an increase in capital costs due to the Acquisition.

Exploration and evaluation expense related to expired leases.

There were no impairment provisions recorded for the six month period ended June 30, 2015 or June 30, 2014.

Taxes

The Company recorded a tax provision of $11,105,000 (2014 - $16,610,000), notwithstanding the significant decrease in net earnings before income taxes due to lower commodity prices. Applying the statute tax rate of 25.01 percent in effect for the first six months of 2015, the expected provision would have been $1,615,000 on net earnings before income taxes. The higher than expected tax provision is due to the two percent increase in the Alberta provincial tax rate that came into effect July 1, 2015, which increased the Company's deferred tax liability by approximately $8,490,000, resulting in a net loss for the second quarter and the first six months of 2015.

For additional information regarding income taxes, see Note 9 of the June 30, 2015 condensed financial statements.

Net Earnings (Loss)

	Three months ended			Six months ended	
($ 000s except $ per share)	**June 30, 2015**	March 31, 2015	June 30, 2014	**June 30, 2015**	June 30, 2014
Net earnings (loss)	**(2,711)**	(1,935)	27,614	**(4,646)**	50,655
$ per share – basic	**(0.08)**	(0.06)	0.87	**(0.14)**	1.59
$ per share – diluted	**(0.08)**	(0.06)	0.86	**(0.14)**	1.58

Net earnings in 2015 decreased by $55,301,000 compared to the same period in 2014. Decreased net earnings resulted primarily from decreased commodity prices, which was partially offset by a decrease in royalties, production costs, general and administration costs and deferred income tax expense.

The quarter over quarter increase in net loss was mainly due to a higher deferred tax provision and increased finance costs, partially offset by increased crude oil prices.

Other Comprehensive Income (Loss)

Other comprehensive income for 2015 consists of an unrealized gain before tax on investments (including investment in a related party) of $1,400,000 relating to an increase in the investments' fair value (June 30, 2014 – $3,393,000). 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 related party, net of tax.

Cash Flow from Operations

	Three months ended			Six months ended	
($ 000s except $ per share)	**June 30, 2015**	March 31, 2015	June 30, 2014	**June 30, 2015**	June 30, 2014
Cash flow from operations	**17,960**	26,079	57,089	**44,039**	106,183
$ per share – basic	**0.56**	0.81	1.79	**1.37**	3.33
$ per share – diluted	**0.56**	0.81	1.78	**1.37**	3.31

In 2015, cash flow from operations decreased by $62,144,000 compared to the same period a year ago. This was primarily due to a decrease in oil and gas sales, which were partially offset by a decrease in royalties and production costs. The quarter over quarter decrease of $8,119,000 was primarily due to a decrease in non-cash working capital, which was partially offset by the increase in oil and gas sales and a reduction in royalties. Second quarter cash flow would have been $35,860,000 compared to $21,972,000 for the first quarter of 2015, if the temporary effect of changes in non-cash working capital on operating activities had been excluded.

Related Party Transactions

Bonterra holds 1,034,523 (December 31, 2013 – 1,034,523) common shares in Pine Cliff Energy Ltd ("Pine Cliff") which represents less than one percent ownership in Pine Cliff's outstanding common shares. Pine Cliff's common shares had a fair market value as of June 30, 2015 of $1,479,000 (December 31, 2014 of $1,738,000). Pine Cliff paid a management fee to the Company of $30,000 (June 30, 2014 - $30,000) plus the reimbursement of certain administrative expenses. Services provided by the Company include executive services, oil and gas administration and office administration. All services performed are charged at estimated fair value. As at June 30, 2015, the Company had an account receivable from Pine Cliff of $346,000 (December 31, 2014 – $316,000).

As at June 30, 2015, the Company's CEO, Chairman of the Board and major shareholder loaned the Company $12,000,000 (December 31, 2014 - $12,000,000). The loan bears interest at Canadian chartered bank prime less 5/8th of a percent and has no set repayment terms but is payable on demand. Security under the debenture is over all of the Company's assets and is subordinated to any and all claims in favour of the syndicate of senior lenders providing credit facilities to the Company. The loan can only be repaid should the Company have sufficient available borrowing limits under the Company's credit facility. Interest paid on this loan for the first six months of 2015 was $134,000 (June 30, 2014 - $141,000). 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

Bonterra continues to focus on monitoring and managing its cash flow, capital expenditures and dividend payments. The Company does not meet its annual guidance range of 1 to 1 times to 1.5 to 1 times net debt to a twelve month trailing cash flow ratio with a ratio of 2.4 to 1 times. The increase in net debt to cash flow is primarily due to the closing of the Pembina Asset acquisition on April 15, 2015 and low commodity prices realized in 2015 compared to 2014. To manage its bank debt Bonterra significantly reduced planned capital expenditures for 2015 compared to 2014 and reduced the monthly dividend payments by 50 percent. In addition the Company raised equity by the way of a private placement of approximately $31 million subsequent to June 30, 2015. With the current oil commodity price environment the Company will be assessing its net debt to cash flow guidance and capital expenditures for 2015 on a continuous basis.

Working Capital Deficiency

($ 000s)	**June 30, 2015**	December 31, 2014	June 30, 2014
Working capital deficiency	**27,558**	53,642	36,399
Long-term bank debt	**361,430**	154,723	151,145
Net debt	**388,988**	208,365	187,544

Net Debt and Working Capital

Net debt is a combination of long-term bank debt and working capital. Net debt increased compared to the same period in 2014. This was primarily attributable to decreased cash flow from lower field netbacks and the acquisition of the Pembina Assets, partially offset by decreased capital spending and reducing the monthly dividend from $0.30 per share to $0.15 per share that commenced with the February 2015 dividend.

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.

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

Capital Expenditures

During the six months ended June 30, 2015, the Company incurred development capital costs of $35,712,000 (June 30, 2014 - $92,702,000) net of proceeds on disposal of property, plant and equipment. The costs relate primarily to the drilling of 11 gross (9.3 net) Cardium operated horizontal wells, completing and tying-in 6 gross (5.9 net) Cardium operated wells that were drilled in 2014, and upgrading facilities and gathering systems. The Company also incurred $170,430,000 in capital costs for the Pembina Asset acquisition.

Long-term Debt

Long-term debt represents the outstanding draws from the Company's credit facilities as described in the notes to the Company's condensed financial statements. As of June 30, 2015, the Company has bank facilities consisting of a $375,000,000 (December 31, 2014 - $220,000,000) syndicated revolving credit facility and a $50,000,000 (December 31, 2014 - $30,000,000) non-syndicated revolving credit facility. Amounts drawn under these credit facilities at June 30, 2015 totaled $361,430,000 (December 31, 2014 - $154,723,000). The interest rates on the outstanding debt as of June 30, 2015 were 4.1 percent and 3.5 percent on the Company's Canadian prime rate loan and Banker's Acceptances, respectively. The loan is revolving to April 29, 2016 with a maturity date of April 30, 2017 and is subject to annual review. On April 15, 2015 the Lenders approved a borrowing base of $500,000,000. The credit facilities have no fixed terms of repayment.

Advances drawn under the credit facilities are secured by a fixed and floating charge debenture over the assets of the Company. In the event the credit facilities are not extended or renewed, amounts drawn under the facility would be due and payable on the maturity date. The size of the committed credit facilities is based primarily on the value of the Company's producing petroleum and natural gas assets and related tangible assets as determined by the lenders. For more information see Note 7 of the June 30, 2015 condensed financial statements.

Shareholders' Equity

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

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

Issued and fully paid – common shares	**Number**	**Amount ($ 000s)**
Balance, June 30, 2015 and December 31, 2014	**32,169,623**	**728,934**

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 3,216,962 (December 31, 2014 – 3,216,962) 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 10 of the June 30, 2015 condensed financial statements.

On July 8, 2015, the Company closed its private placement of 973,812 common shares to existing shareholders at a price of $32.00 per share, for aggregate proceeds of approximately $31,162,000. The Company incurred share issue costs of approximately $200,000 in respect of the offering.

Dividend Policy

For the six months ended June 30, 2015, Bonterra paid dividends of $33,778,000 ($1.05 per share) compared to $55,180,000 ($1.74 per share) in 2014. Bonterra's dividend policy is regularly monitored and is dependent upon production, commodity prices, funds from operations, debt levels and capital expenditures. With its large inventory of undrilled locations, Bonterra continues to be well positioned to provide its shareholders a combination of sustainable growth and meaningful dividend income.

Bonterra's dividends to its shareholders are funded by cash flow from operating activities with the remaining cash flow directed towards capital spending and, where applicable, 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 77 percent for the six months ended June 30, 2015 (52 percent for the six months ended June 30, 2014).

Quarterly Financial Information

	2015		2014			
For the periods ended ($ 000s except $ per share)	**Q2**	Q1	Q4	Q3	Q2	Q1
Revenue – oil and gas sales	**57,921**	42,480	68,940	88,959	99,274	82,521
Cash flow from operations	**17,960**	26,079	50,465	65,705	57,089	49,094
Net earnings (loss)	**(2,711)**	(1,935)	(32,877)	20,983	27,614	23,041
Per share – basic	**(0.08)**	(0.06)	(1.04)	0.65	0.87	0.73
Per share – diluted	**(0.08)**	(0.06)	(1.03)	0.65	0.86	0.73

	2013			
For the periods ended ($ 000s except $ per share)	Q4	Q3	Q2	Q1
Revenue – oil and gas sales	70,917	78,946	79,344	66,468
Cash flow from operations	47,772	43,953	41,445	40,726
Net earnings	15,254	19,690	15,119	12,695
Per share – basic	0.50	0.63	0.49	0.46
Per share – diluted	0.49	0.63	0.49	0.46

The fluctuations in the Company's revenue and net earnings from quarter to quarter are primarily caused by variations in production volumes, realized oil and natural gas pricing and the related impact on royalties and production costs. First and second quarter of 2015 net earnings and cash flow are lower than prior periods due to a significant decrease in crude oil prices, other than Q4 2014 net earnings which was lower due to the Company's tax agreement with CRA.

Critical Accounting Estimates

There have been no changes to the Company's critical accounting policies and estimates as of the period ended in the financial statements.

Forward-Looking Information

Certain statements contained in this MD&A include statements which contain words such as "anticipate", "could", "should", "expect", "seek", "may", "intend", "likely", "will", "believe" and similar expressions, relating to matters that are not historical facts, and such statements of our beliefs, intentions and expectations about development, results and events which will or may occur in the future, constitute "forward-looking information" within the meaning of applicable Canadian securities legislation and are based on certain assumptions and analysis made by us derived from our experience and perceptions. Forward-looking information in this MD&A includes, but is not limited to: expected cash provided by continuing operations; cash dividends; future capital expenditures, including the amount and nature thereof; oil and natural gas prices and demand; expansion and other development trends of the oil and gas industry; business strategy and outlook; expansion and growth of our business and operations; and maintenance of existing customer, supplier and partner relationships; supply channels; accounting policies; credit risks; and other such matters.

All such forward-looking information is based on certain assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances. The risks, uncertainties, and assumptions are difficult to predict and may affect operations, and may include, without limitation: foreign exchange fluctuations; equipment and labour shortages and inflationary costs; general economic conditions; industry conditions; changes in applicable environmental, taxation and other laws and regulations as well as how such laws and regulations are interpreted and enforced; the ability of oil and natural gas companies to raise capital; the effect of weather conditions on operations and facilities; the existence of operating risks; volatility of oil and natural gas prices; oil and gas product supply and demand; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; increased competition; stock market volatility; opportunities available to or pursued by us; and other factors, many of which are beyond our control. The foregoing factors are not exhaustive.

Actual results, performance or achievements could differ materially from those expressed in, or implied by, this forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do, what benefits will be derived therefrom. Except as required by law, Bonterra disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

The forward-looking information contained herein is expressly qualified by this cautionary statement.

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed to ensure the information required to be disclosed by the Company is accumulated and communicated to the Company's Management, as appropriate, to allow timely decisions regarding required disclosures. The Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), together with management, have concluded, based on their evaluation as of the end of the period covered by the interim filing that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the issuer, is made known to them by others within the Company. It should be noted that while the Company's CEO and CFO believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objective of the control system is met.

Internal Control Update

The Company's CEO and CFO are responsible for establishing and maintaining Disclosure Controls and Procedures (DC&P) and adequate Internal Control over Financial Reporting (ICFR) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements as of the period covered by the interim filing for external purposes in accordance with International Financial Reporting Standards. The control framework the Company used to design its ICFR was in accordance with the Committee of Sponsoring Organizations of the Treadway Commission (COSO 1992). The Company's CEO and CFO have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal control over financial reporting at the financial period end of the Company and concluded that the Company's internal control over financial reporting are effective for the foregoing purpose.

No changes were made to the Company's internal controls over financial reporting during the end of the period covered by the interim filing that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

The Company is in the process of reviewing its ICFR to be compliant with the COSO 2013 framework by December 31, 2015.

All internal control systems, no matter how well designed, have inherent limitations. These systems, therefore, provide reasonable but not absolute assurance that financial information is accurate and complete.

Financial Reporting Update

As of January 1, 2015, the Company early adopted IFRS 9 in accordance with the transitional provisions of that standard. A brief description of the new accounting policy and its impact on the Company's financial statements are as follows:

IFRS 9 "Financial Instruments"

Effective January 1, 2015 the Company adopted IFRS 9 "Financial instruments". IFRS 9 replaces the sections of IAS 39 "Financial Instruments: Recognition and Measurements" that relates to the classification and measurement of financial instruments and hedge accounting.

IFRS 9 replaces the multiple classification and measurements models for financial assets with a new model that only has two measurements categories; amortized cost and fair value through profit or loss or other comprehensive income. This determination is made at initial recognition. As a result of adopting IFRS 9, the Company's accounts receivables were reclassified from loans and receivables at amortized cost to financial assets at amortized cost. For financial liabilities, the new standard retains most of the IAS 39 requirements. The main change arises in cases where the Company chooses to designate a financial liability as fair value through net earnings. In these situations, the portion of the fair value change related to the Company's own credit risk is recognized in other comprehensive income rather than net earnings. The Company has no financial liabilities that are measured at fair value through net earnings.

The classification of the Company's investments changed from available-for-sale to financial assets measured at fair value. On the day an investment is acquired the Company can make an irrevocable election (on an instrument by instrument basis) to designate investments in equity instruments as at fair value through other comprehensive income (FVTOCI), provided those investments are not classified as held for trading. The Company's investments will be measured at fair value, with gains or losses arising from changes in fair value recognized in other comprehensive income and accumulated in the fair value instrument. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the investments. The Company has designated all of its investments and its investment in a related party as FVTOCI on its initial adoption of IFRS 9.

After adoption of IFRS 9, the Company's accounting policies are substantially the same as at December 31, 2014 except for the changes discussed above.

Future Accounting Pronouncements

In May 2014, the International Accounting Standards Board (IASB) issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. This standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2017, with earlier adoption permitted. The Company has not yet assessed the impact, if any, that the new standard will have on its financial statements or whether to early adopt this new standard.

Additional information relating to the Company may be found on www.sedar.com or visit our website at www.bonterraenergy.com.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The information provided in this report, including the financial statements, is the responsibility of management. The timely preparation of the financial statements requires that management make estimates and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates primarily relate to unsettled transactions and events as at the date of the financial statements. Accordingly, actual results may differ from estimated amounts as future confirming events occur. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

The audit committee has reviewed these condensed financial statements with management and has reported to the Board of Directors. The Board of Directors has approved the financial statements as presented in this interim report.

CONDENSED STATEMENT OF FINANCIAL POSITION

As at (unaudited) ($ 000s)	Note	**June 30, 2015**	December 31, 2014
Assets			
Current			
Accounts receivable		**25,123**	20,314
Crude oil inventory		**817**	1,227
Prepaid expenses		**4,317**	2,428
Investments		**13,224**	6,228
		43,481	30,197
Investment in related party		**1,479**	1,738
Exploration and evaluation assets		**8,061**	7,629
Property, plant and equipment	3, 4	**1,070,626**	901,991
Investment tax credit receivable	9	**8,834**	8,573
Goodwill		**92,810**	92,810
		1,225,291	1,042,938
Liabilities			
Current			
Accounts payable and accrued liabilities		**24,039**	31,839
Due to related party	5	**12,000**	12,000
Subordinated promissory note	6	**35,000**	40,000
		71,039	83,839
Bank debt	7	**361,430**	154,723
Decommissioning liabilities	8	**66,001**	53,792
Deferred tax liability	9	**126,910**	115,386
		625,380	407,740
Subsequent events	13		
Shareholders' equity			
Share capital	10	**728,934**	728,934
Contributed surplus		**13,257**	11,495
Accumulated other comprehensive income		**3,653**	3,824
Retained earnings (deficit)		**(145,933)**	(109,055)
		599,911	635,198
		1,225,291	1,042,938

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

For the periods ended June 30 (unaudited)		Three Months		Six Months	
($ 000s, except $ per share)	Note	**2015**	2014	**2015**	2014
Revenue					
Oil and gas sales, net of royalties	11	**54,687**	87,617	**93,679**	160,672
Other income	12	**86**	289	**211**	1,079
		54,773	87,906	**93,890**	161,751
Expenses					
Production		**13,923**	17,694	**27,023**	32,719
Office and administration		**697**	1,350	**1,629**	1,887
Employee compensation		**1,070**	1,977	**1,782**	3,907
Finance costs		**4,512**	1,764	**6,446**	3,402
Share-option compensation	10	**997**	622	**1,762**	940
Depletion and depreciation	4	**24,898**	27,788	**48,789**	51,603
Exploration and evaluation		**-**	4	**-**	28
		46,097	51,199	**87,431**	94,486
Earnings before income taxes		**8,676**	36,707	**6,459**	67,265
Taxes (recovery)					
Current income tax (recovery)	9	**(1,135)**	-	**(395)**	-
Deferred income tax	9	**12,522**	9,093	**11,500**	16,610
		11,387	9,093	**11,105**	16,610
Net earnings (loss) for the period		**(2,711)**	27,614	**(4,646)**	50,655
Other comprehensive income (loss)					
Unrealized gain on investments		**2,360**	1,376	**1,400**	3,393
Deferred taxes on unrealized gain on investments		**(354)**	(172)	**(234)**	(424)
Realized gain on investments transferred to net earnings		**-**	(169)	**-**	(169)
Deferred taxes on realized gain on investments transferred to net earnings		**-**	21	**-**	21
Other comprehensive income (loss) for the period		**2,006**	1,056	**1,166**	2,821
Total comprehensive income (loss) for the period		**(705)**	28,670	**(3,480)**	53,476
Net earnings (loss) per share - basic	10	**(0.08)**	0.87	**(0.14)**	1.59
Net earnings (loss) per share – diluted	10	**(0.08)**	0.86	**(0.14)**	1.58
Comprehensive income (loss) per share - basic	10	**(0.02)**	0.90	**(0.11)**	1.68
Comprehensive income (loss) per share – diluted	10	**(0.02)**	0.89	**(0.11)**	1.67

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF CASH FLOW

For the periods ended June 30 (unaudited)		Three Months		Six Months	
($ 000s)	Note	**2015**	2014	**2015**	2014
Operating activities					
Net earnings (loss)		**(2,711)**	27,614	**(4,646)**	50,655
Items not affecting cash					
Deferred income taxes		**12,522**	9,093	**11,500**	16,610
Share-option compensation		**997**	622	**1,762**	940
Depletion and depreciation		**24,898**	27,788	**48,789**	51,603
Exploration and evaluation		**-**	4	**-**	28
Unwinding of the discount on decommissioning liabilities		**469**	313	**860**	593
Gain on sale of properties		**-**	(90)	**-**	(671)
Gain on sale of investments		**-**	(169)	**-**	(169)
Investment income		**(69)**	(15)	**(165)**	(33)
Interest expense		**4,042**	1,451	**5,586**	2,809
Change in non-cash working capital accounts:					
Accounts receivable		**(8,547)**	(4,783)	**(5,786)**	(9,710)
Crude oil inventory		**(75)**	652	**313**	133
Prepaid expenses		**(2,348)**	(2,732)	**(1,889)**	(2,889)
Investment tax credit receivable		**(705)**	-	**(261)**	-
Accounts payable and accrued liabilities		**(6,225)**	(841)	**(6,170)**	(133)
Decommissioning expenditures		**(246)**	(367)	**(268)**	(774)
Interest paid		**(4,042)**	(1,451)	**(5,586)**	(2,809)
Cash provided by operating activities		**17,960**	57,089	**44,039**	106,183
Financing activities					
Increase (decrease) in bank debt		**154,213**	8,042	**206,707**	(5,619)
Subordinated promissory note		**(5,000)**	-	**(5,000)**	15,000
Stock option proceeds		**-**	18,414	**-**	31,303
Dividends		**(14,476)**	(27,750)	**(33,778)**	(55,180)
Cash provided by (used in) financing activities		**134,737**	(1,294)	**167,929**	(14,496)
Investing activities					
Investment income received		**69**	15	**165**	33
Exploration and evaluation expenditures		**-**	-	**(432)**	-
Property, plant and equipment expenditures		**(13,952)**	(38,618)	**(35,280)**	(93,854)
Proceeds on sale of properties		**-**	152	**-**	1,152
Purchase of investments		**-**	-	**(12,221)**	-
Proceeds on sale of investments		**6,883**	445	**6,883**	445
Acquisition	3	**(153,230)**	-	**(170,430)**	-
Change in non-cash working capital accounts:					
Accounts payable and accrued liabilities		**5,315**	(17,697)	**(1,630)**	918
Accounts receivable		**2,218**	(92)	**977**	(381)
Cash used in investing activities		**(152,697)**	(55,795)	**(211,968)**	(91,687)
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)

($ 000s, except number of shares outstanding)

	Number of shares outstanding (Note 10)	Share capital (Note 10)	Contributed surplus (1)	Accumulated other comprehensive income (2)	Retained earnings (deficit)	Total shareholders' equity
January 1, 2014	31,322,171	685,898	12,791	3,761	(34,809)	667,641
Share-option compensation			940			940
Share issuance	18,000	1,104				1,104
Exercise of options	678,421	31,303				31,303
Transfer to share capital on exercise of options		2,992	(2,992)			-
Comprehensive income				2,821	50,655	53,476
Dividends					(55,180)	(55,180)
June 30, 2014	32,018,592	721,297	10,739	6,582	(39,334)	699,284
Share-option compensation			1,785			1,785
Exercise of options	151,031	6,608				6,608
Transfer to share capital on exercise of options		1,029	(1,029)			-
Comprehensive income				(2,758)	(11,894)	(14,652)
Dividends					(57,827)	(57,827)
December 31, 2014	32,169,623	728,934	11,495	3,824	(109,055)	635,198
Share-option compensation			1,762			1,762
Comprehensive income				1,166	(4,646)	(3,480)
Transfer of realized gain on investments				(1,546)	1,546	-
Deferred taxes on realized gain on investements				209		209
Dividends					(33,778)	(33,778)
June 30, 2015	32,169,623	728,934	13,257	3,653	(145,933)	599,911

(1) Contributed surplus includes all amounts related to share-option compensation

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

See accompanying notes to these condensed financial statements.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

As at June 30, 2015 and December 31, 2014 and for the three and six months ended June 30, 2015 and June 30, 2014 (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 and incorporated under the Business Corporations Act (Alberta). The address of the Company's registered office is Suite 901, 1015-4th Street SW, Calgary, Alberta, Canada, T2R 1J4.

Bonterra operates in one industry and has only one reportable segment being the development and production of oil and natural gas in the Western Canadian Sedimentary Basin.

The financial statements were authorized for issue by the Company's Board of Directors on August 12, 2015.

2. BASIS OF PREPARATION

a) Statement of Compliance

The Company prepares its 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 2014 audited annual financial statements, except as stated 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 2014 audited annual financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

b) Adopted Accounting Pronouncements

As of January 1, 2015, the Company adopted the following new accounting pronouncement, in accordance with the transitional provision of the standard. A brief description of the new accounting policy and its impact on the Company's financial statements is as follows:

IFRS 9 "Financial instruments"

Effective January 1, 2015 the Company adopted IFRS 9 "Financial instruments". IFRS 9 replaces the sections of IAS 39 "Financial Instruments: Recognition and Measurements" that relates to the classification and measurement of financial instruments and hedge accounting.

IFRS 9 replaces the multiple classification and measurements models for financial assets with a new model that only has two measurements categories; amortized cost and fair value through profit or loss or other comprehensive income. This determination is made at initial recognition. As a result of adopting IFRS 9, the Company's accounts receivables were reclassified from loans and receivables at amortized cost to financial assets at amortized cost. For financial liabilities, the new standard retains most of the IAS 39 requirements. The main change arises in cases where the Company chooses to designate a financial liability as fair value through net earnings. In these situations, the portion of the fair value change related to the Company's own credit risk is recognized in other comprehensive income rather than net earnings. The Company has no financial liabilities that are measured at fair value through net earnings.

The classification of the Company's investments changed from available-for-sale to financial assets measured at fair value. On the day an investment is acquired the Company can make an irrevocable election (on an instrument by instrument basis) to designate investments in equity instruments as at fair value through other comprehensive income (FVTOCI), provided those investments are not classified as held for trading. The Company's investments will be measured at FVTOCI, with gains or losses arising from changes in fair value recognized in other comprehensive income and accumulated in the fair value instrument. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the investments. The Company has designated all of its investments and its investment in a related party as FVTOCI on its initial adoption of IFRS 9.

After adoption of IFRS 9, the Company's accounting policies are substantially the same as at December 31, 2014 except for the changes discussed above.

c) Future Accounting Pronouncements

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. This standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2017, with earlier adoption permitted. The Company has not yet assessed the impact, if any, that the new amended standard will have on its financial statements or whether to early adopt this new requirement.

3. ACQUISITION

On April 15, 2015, the Company acquired certain Cardium focused oil and gas assets in the Pembina area of Alberta, including upper zones (the "Pembina Assets") for cash consideration of $170,430,000. The results of the Pembina Assets have been included in these financial statements since that date. The Pembina Assets contributed oil and gas sales, net of royalties, of $7,460,000 and operating expenses of $3,991,000 for the period from April 15, 2015 to June 30, 2015. If the acquisition had occurred on January 1, 2015, total oil and gas sales, net of royalties, would have been approximately $15,317,000 and the total operating expenses would have been approximately $9,245,000 for the six months ended June 30, 2015.

The acquisition has been accounted for using the acquisition method, and the purchase price was allocated to the assets acquired and the liabilities assumed as follows:

Net assets acquired:	($ 000s)
Property, plant and equipment	173,111
Decommissioning liabilities	(2,681)
Total	170,430

Consideration:	
Cash	170,430
Total purchase price	170,430

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, 2014	**1,028,520**	**252,521**	**1,987**	**1,283,028**
Additions	24,925	10,293	62	35,280
Acquistion	138,711	34,400	-	173,111
Adjustment to decomissioning liabilities	8,936	-	-	8,936
Balance at June 30, 2015	**1,201,092**	**297,214**	**2,049**	**1,500,355**

Accumulated Depletion and Depreciation ($ 000s)	Oil and gas properties	Production facilities	Furniture, fixtures & other equipment	Total property, plant & equipment
Balance at December 31, 2014	**(305,742)**	**(73,866)**	**(1,429)**	**(381,037)**
Depletion and depreciation	(41,356)	(7,382)	(50)	(48,788)
Disposal and other	96	-	-	96
Balance at June 30, 2015	**(347,002)**	**(81,248)**	**(1,479)**	**(429,729)**

Carrying amounts as at: **($ 000s)**				
December 31, 2014	722,778	178,655	558	901,991
June 30, 2015	**854,090**	**215,966**	**570**	**1,070,626**

There were no impairment losses or reversals recorded in the statement of comprehensive income for the three and six months ended June 30, 2015 and 2014.

5. TRANSACTIONS WITH RELATED PARTIES

As at June 30, 2015, the Company's CEO, Chairman of the Board and major shareholder has a loan with the Company of $12,000,000 (December 31, 2014 - $12,000,000). The loan bears interest at Canadian chartered bank prime less 5/8th of a percent and has no set repayment terms but is payable on demand. Security under the debenture is over all of the Company's assets and is subordinated to any and all claims in favour of the syndicate of senior lenders providing credit facilities to the Company. The loan can only be repaid should the Company have sufficient available borrowing limits under the Company's credit facility. Interest paid on this loan during the first six months of 2015 was $134,000 (June 30, 2014 - $141,000).

The Company received a management fee of $30,000 plus the reimbursement of certain administrative expenses for the six months ended June 30, 2015 (June 30, 2014 - $30,000) for management services and office administration from Pine Cliff Energy Ltd. ("Pine Cliff"). This fee has been included in other income. As at June 30, 2015, the Company had an account receivable from Pine Cliff for these management fees and the reimbursement of certain administration expense of $346,000 (December 31, 2014 - $316,000).

6. SUBORDINATED PROMISSORY NOTE

As at June 30, 2015, Bonterra borrowed $35,000,000 (December 31, 2014 - $40,000,000) from a private investor, in exchange for a subordinated promissory note. The terms of the subordinated promissory note are that it bears interest at three percent and is repayable after thirty days written notice by either party. Security consists of a floating demand debenture of $35,000,000 over all of the Company's assets and is subordinated to any and all claims in favor of the syndicate of senior lenders providing credit facilities to the Company. Interest paid on the subordinated promissory note during the first six months was $558,000 (June 30, 2014 - $570,000). On July 21, 2015 the Company repaid $5,000,000.

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 June 30, 2015, the Company has bank facilities consisting of a $375,000,000 (December 31, 2014 - $220,000,000) syndicated revolving credit facility and a $50,000,000 (December 31, 2014 - $30,000,000) non-syndicated revolving credit facility, for total credit facilities of $425,000,000. Amounts drawn under the credit facilities at June 30, 2015 were $361,430,000 (December 31, 2014 - $154,723,000). 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 0.75 percent and 3.50 percent, depending on the type of borrowing and the Company's consolidated total funded debt to consolidated cash flow. The terms of the revolving credit facilities provided that the loan is revolving to April 29, 2016, with a maturity date of April 30, 2017 and is subject to annual review. The credit facilities have no fixed terms of repayment.

The available lending limits of the credit facilities are reviewed semi-annually on or before April 30 and October 31 each year based on the lender's interpretation of the Company's reserves, future commodity prices and costs. The Company has been approved an increase in the commitment amount up to the borrowing base of $500,000,000 prior to the next scheduled review, subject to the approval of the lenders.

The amount available for borrowing under the credit facilities is reduced by outstanding letters of credit. Letters of credit totaling $700,000 were issued as at June 30, 2015 (December 31, 2014 - $700,000). Security for credit facilities consists of various and floating demand debentures totaling $750,000,000 (December 31, 2014 - $400,000,000) 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 $425,000,000 in consolidated debt (includes working capital but excludes amounts due to related parties and the subordinated promissory note).
- Dividends paid in the current quarter shall not exceed 80 percent of the average available cash flow for the preceding four fiscal quarters.

Available cash flow is defined to be cash provided by operating activities excluding gains on sale of property and investments, the change in non-cash working capital and decommissioning liabilities settled and including all net proceeds of dispositions included in cash used in investing activities. At June 30, 2015, the Company is in compliance with all covenants.

8. DECOMMISSIONING LIABILITIES

At June 30, 2015, the estimated total undiscounted amount required to settle the decommissioning liabilities was $225,512,000 (December 31, 2014- $177,441,000). The provision has been calculated assuming a 1.5 percent inflation rate (December 31, 2014 – 1.5 percent inflation rate). These obligations will be settled at the end of the useful lives of the underlying assets, which extend up to 50 years into the future. This amount has been discounted using a risk-free interest rate of 3.0 percent (December 31, 2014 – 2.9 percent).

Changes to decommissioning liabilities were as follows:

($ 000s)	June 30, 2015	December 31, 2014
Decommissioning liabilities, January 1	**53,792**	37,362
Acquisition (Note 3)	**2,681**	-
Adjustment to decommissioning liabilities[1]	**8,936**	16,721
Disposals	**-**	
Liabilities settled during the year	**(268)**	(1,652)
Unwinding of the discount on of decommissioning liabilities	**860**	1,361
Decommissioning liabilities, end of period	**66,001**	53,792

(1) Adjustment to decommissioning liabilities is due to a change in the discount rate and estimates.

9. INCOME TAXES

($ 000s)	June 30, 2015	December 31, 2014
Deferred tax asset (liability) related to:		
Investments	**(591)**	(566)
Exploration and evaluation assets and property, plant and equipment	**(143,346)**	(126,199)
Investment tax credits	**(2,367)**	(3,808)
Decommissioning liabilities	**17,819**	13,459
Share issue costs	**984**	1,162
Corporate capital tax losses carried forward	**9,090**	8,617
Unrecorded benefit of capital tax losses carried forward	**(8,499)**	(8,051)
Deferred tax asset (liability)	**(126,910)**	(115,386)

Income tax expense varies from the amounts that would be computed by applying Canadian federal and provincial income tax rates as follows:

	Three Months		Six Months	
($ 000s)	**June 30, 2015**	June 30, 2014	**June 30, 2015**	June 30, 2014
Earnings before taxes	**8,676**	36,707	**6,459**	67,265
Combined federal and provincial income tax rates	**25.01%**	25.02%	**25.01%**	25.02%
Income tax provision calculated using statutory tax rates	**2,170**	9,184	**1,615**	16,830
Increase (decrease) in taxes resulting from:				
Change in statutory tax rates[1]	**8,403**	-	**8,490**	-
Share-option compensation	**249**	156	**441**	235
Realized gain on sale of investments	**209**	-	**209**	-
Change in estimates and other	**356**	(247)	**350**	(455)
Income tax expense	**11,387**	9,093	**11,105**	16,610

(1) Effective July 1, 2015 the combined federal and provincial income tax rate for Bonterra is approximately 27.00% due to a two percent increase in the provincial tax rate for Alberta, Canada.

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	122,468
Eligible capital expenditures	7	2,505
Share issue costs	20	3,644
Canadian oil and gas property expenditures	10	188,560
Canadian development expenditures	30	224,447
Canadian exploration expenditures	100	8,063
		549,687

The Company has $8,834,000 (December 31, 2014 - $8,573,000) 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 $67,335,000 (December 31, 2014 - $68,881,000) of capital losses carried forward which can only be claimed against taxable capital gains.

10. SHAREHOLDERS' EQUITY

Authorized

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

Issued and fully paid – common shares	**Number**	**Amount ($ 000s)**
Balance, June 30, 2015 and December 31, 2014	**32,169,623**	**728,934**

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

The weighted average common shares used to calculate basic and diluted net earnings per share for the three and six months ended is as follows:

	Three Months		Six Months	
	June 30, 2015	June 30, 2014	**June 30, 2015**	June 30, 2014
Basic shares outstanding	**32,169,623**	31,901,711	**32,169,623**	31,865,760
Dilutive effect of share options (1)	**-**	212,340	**-**	189,632
Diluted shares outstanding	**32,169,623**	32,114,051	**32,169,623**	32,055,392

(1) The Company did not include 3,024,000 share options for the three months ended June 30, 2015 (June 30, 2014 – 192,000) and 3,024,000 share options for the six months ended June 30, 2015 (June 30, 2014 - 210,000) in the dilutive effect of share options calculation as these share options were anti-dilutive.

For the three months ended June 30, 2015, the Company declared and paid dividends of $14,476,000 ($0.45 per share) (June 30, 2014 - $27,750,000 ($0.87 per share)). For the six months ended June 30, 2015, the Company declared and paid dividends of $33,778,000 ($1.05 per share) (June 30, 2014 - $55,180,000 ($1.74 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 3,216,962 (December 31, 2014 – 3,216,962) common shares. The exercise price of each option granted cannot be lower than the market price of the common shares on the date of grant and the option's maximum term is five years.

A summary of the status of the Company's stock option plan as of June 30, 2015, and changes during the period ended on those dates is presented below:

	Number of options	**Weighted average exercise price**
At December 31, 2014	2,111,500	$48.31
Options granted	965,500	34.57
Options expired	(53,000)	47.29
At June 30, 2015	3,024,000	$48.57

The following table summarizes information about options outstanding at June 30, 2015:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number outstanding at June 30, 2015	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at June 30, 2015	Weighted-average exercise price
$ 30.00 – $ 40.00	965,500	2.3 years	$34.57	-	$ -
40.01 – 50.00	287,000	0.7 years	46.23	142,000	44.94
50.01 – 65.00	1,771,500	0.9 years	56.58	747,500	52.36
$ 30.00 – $ 65.00	3,024,000	1.3 years	$48.57	889,500	$51.18

The Company records compensation expense over the vesting period, which ranges between one to three years, based on the fair value of options granted to employees, directors and consultants. In 2015, the Company granted 965,500 stock options with an estimated fair value of $3,910,000 or $4.05 per option using the Black-Scholes option pricing model with the following key assumptions:

	June 30, 2015
Weighted-average risk free interest rate (%)[(1)]	**0.46**
Expected life (years)	**2.0**
Weighted-average volatility (%) [(2)]	**29.93**
Forfeiture rate (%)	**9.93**
Weighted average dividend yield (%)	**5.21**

(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.

11. OIL AND GAS SALES, NET OF ROYALTIES

	Three Months		SixMonths	
($ 000s)	**June 30, 2015**	June 30, 2014	**June 30, 2015**	June 30, 2014
Oil and gas sales	**57,921**	99,274	**100,401**	181,795
Less:				
Crown royalties	**(1,664)**	(7,480)	**(3,708)**	(12,713)
Freehold, gross overriding royalties and other	**(1,570)**	(4,177)	**(3,014)**	(8,410)
Oil and gas sales, net of royalties	**54,687**	87,617	**93,679**	160,672

12. OTHER INCOME

($ 000s)	Three Months **June 30, 2015**	June 30, 2014	Six Months **June 30, 2015**	June 30, 2014
Investment income	**69**	15	**165**	33
Administrative income	**17**	15	**46**	206
Gain on sale of properties	**-**	90	**-**	671
Realized gain on investments	**-**	169	**-**	169
Other income	**86**	289	**211**	1,079

13. SUBSEQUENT EVENTS

i) Private Placement

On July 8, 2015, the Company closed its private placement of 973,812 common shares to existing shareholders at a price of $32.00 per share, for aggregate proceeds of approximately $31,162,000. The Company incurred issue costs of approximately $200,000 in respect of the offering.

ii) Dividends

Subsequent to June 30, 2015, the Company declared the following dividends:

Date declared	Record date	$ per share	Date payable
July 2, 2015	July 15, 2015	0.15	July 31, 2015
August 4, 2015	August 14, 2015	0.15	August 31, 2015

Corporate Information

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

Officers
G. F. Fink, CEO and Chairman of the Board
R. D. Thompson, CFO and Corporate Secretary
A. Neumann, Chief Operating Officer
B. A. Curtis, Vice President, Business Development

Registrar and Transfer Agent
Computershare Trust Company of Canada, Calgary, Alberta

Auditors
Deloitte LLP, Calgary, Alberta

Solicitors
Borden Ladner Gervais LLP, Calgary, Alberta

Bankers
CIBC, Calgary, Alberta
National Bank of Canada, Calgary, Alberta
J.P. Morgan, Calgary, Alberta
TD Securities, Calgary, Alberta
Alberta Treasury Branch, Calgary, Alberta

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