

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

CONDENSED STATEMENT OF FINANCIAL POSITION

As at (Unaudited) (\$ 000s)	Note	September 30, 2017	December 31, 2016
Assets			
Current			
Accounts receivable		15,862	20,774
Crude oil inventory		545	1,060
Prepaid expenses		4,437	2,529
Investments		279	452
		21,123	24,815
Investment in related party		662	1,169
Exploration and evaluation assets		7,811	7,073
Property, plant and equipment	3	1,015,258	1,013,133
Investment tax credit receivable	8	8,834	8,834
Goodwill		92,810	92,810
		1,146,498	1,147,834
Liabilities			
Current			
Accounts payable and accrued liabilities		24,883	25,236
Due to related party	4	12,000	12,000
Subordinated promissory note	5	12,500	12,500
		49,383	49,736
Bank debt	6	345,322	329,204
Decommissioning liabilities	7	107,537	100,941
Deferred tax liability		126,537	124,129
		628,779	604,010
Subsequent events	11		
Shareholders' equity			
Share capital	9	763,977	763,788
Contributed surplus		24,929	21,068
Accumulated other comprehensive income (loss)		(173)	414
Retained earnings (deficit)		(271,014)	(241,446)
		517,719	543,824
		1,146,498	1,147,834

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

For the periods ended September 30 (unaudited) (\$ 000s, except \$ per share)	Note	Three Months		Nine Months	
		2017	2016	2017	2016
Revenue					
Oil and gas sales, net of royalties	10	43,185	43,058	138,144	114,192
Other income		103	48	230	152
		43,288	43,106	138,374	114,344
Expenses					
Production		15,319	15,205	44,638	40,967
Office and administration		1,137	448	2,603	2,163
Employee compensation		959	914	3,528	2,861
Finance costs		5,136	5,317	14,594	14,886
Share-option compensation	9	1,029	1,558	3,907	4,062
Depletion and depreciation	3	22,349	27,064	66,427	78,174
		45,929	50,506	135,697	143,113
Earnings (loss) before income taxes		(2,641)	(7,400)	2,677	(28,769)
Taxes					
Current income tax expense (recovery)	8	(245)	4	(233)	(3,549)
Deferred income tax expense (recovery)	8	647	(1,574)	2,500	(2,253)
		402	(1,570)	2,267	(5,802)
Net earnings (loss) for the period		(3,043)	(5,830)	410	(22,967)
Other comprehensive income (loss)					
Unrealized gain (loss) on investments		(137)	90	(680)	2,760
Deferred taxes on unrealized (gain) loss on investments		19	(12)	93	(372)
Other comprehensive income (loss) for the period		(118)	78	(587)	2,388
Total comprehensive (loss) for the period		(3,161)	(5,752)	(177)	(20,579)
Net earnings (loss) per share - basic and diluted	9	(0.09)	(0.18)	0.01	(0.69)
Comprehensive (loss) per share - basic and diluted	9	(0.09)	(0.17)	(0.01)	(0.62)

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF CASH FLOW**For the periods ended September 30 (unaudited)**

(\$ 000s)	Note	Three months		Nine Months	
		2017	2016	2017	2016
Operating activities					
Net earnings (loss)		(3,043)	(5,830)	410	(22,967)
Items not affecting cash					
Deferred income taxes		647	(1,574)	2,500	(2,253)
Share-option compensation		1,029	1,558	3,907	4,062
Depletion and depreciation		22,349	27,064	66,427	78,174
Unwinding of the discount on decommissioning liabilities		763	593	2,252	1,848
Investment income		(18)	3	(41)	(8)
Interest expense		4,373	4,724	12,342	13,038
Change in non-cash working capital accounts:					
Accounts receivable		4,091	(397)	3,617	(7,687)
Crude oil inventory		23	(55)	188	65
Prepaid expenses		651	(1,156)	(1,908)	(1,696)
Accounts payable and accrued liabilities		(640)	415	1,001	(2,657)
Decommissioning expenditures		(361)	(1,402)	(952)	(3,124)
Interest paid		(4,373)	(4,724)	(12,342)	(13,038)
Cash provided by operating activities		25,491	19,219	77,401	43,757
Financing activities					
Increase (repayment) in bank debt		4,252	(970)	16,118	3,482
Subordinated promissory note		-	(2,500)	-	(12,500)
Stock option proceeds		-	-	143	-
Dividends		(9,993)	(9,943)	(29,978)	(29,829)
Cash used in financing activities		(5,741)	(13,413)	(13,717)	(38,847)
Investing activities					
Investment income received		18	(3)	41	8
Exploration and evaluation expenditures		(738)	-	(738)	-
Property, plant and equipment expenditures	3	(13,383)	(17,424)	(62,928)	(28,581)
Proceeds on sale of property		-	-	-	54
Proceeds on sale of investments		-	1,699	-	10,783
Change in non-cash working capital accounts:					
Accounts payable and accrued liabilities		(6,697)	9,592	(1,354)	11,589
Accounts receivable		1,050	330	1,295	1,237
Cash used in investing activities		(19,750)	(5,806)	(63,684)	(4,910)
Net change in cash in the period		-	-	-	-
Cash, beginning of period		-	-	-	-
Cash, end of period		-	-	-	-

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF CHANGES IN EQUITY

For the periods ended (unaudited)

(\$ 000's, except number of shares outstanding)

	Numbers of common shares outstanding (Note 9)	Share Capital (Note 9)	Contributed surplus ⁽¹⁾	Accumulated other Comprehensive income (loss) ⁽²⁾	Retained earnings (deficit)	Total shareholder's equity
January 1, 2016	33,143,435	760,020	15,765	571	(180,551)	595,805
Share-option compensation			4,062			4,062
Comprehensive income (loss)				2,388	(22,967)	(20,579)
Transfer on realized gain on investments				(3,047)	3,047	-
Deferred taxes on realized gain on investments				411		411
Dividends					(29,829)	(29,829)
September 30, 2016	33,143,435	760,020	19,827	323	(230,300)	549,870
Share-option compensation			1,756			1,756
Exercise of options	159,000	3,253				3,253
Transfer to share capital on exercise of options		515	(515)			-
Comprehensive income (loss)				91	(1,168)	(1,077)
Dividends					(9,978)	(9,978)
December 31, 2016	33,302,435	763,788	21,068	414	(241,446)	543,824
Share-option compensation			3,907			3,907
Exercise of options	8,361	143				143
Transfer to share capital on exercise of options		46	(46)			-
Comprehensive income (loss)				(587)	410	(177)
Dividends					(29,978)	(29,978)
September 30, 2017	33,310,796	763,977	24,929	(173)	(271,014)	517,719

⁽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 September 30, 2017 and December 31, 2016 and for the three and nine months ended September 30, 2017 and September 30, 2016 (unaudited).

1. NATURE OF BUSINESS AND SEGMENT INFORMATION

Bonterra Energy Corp. (Bonterra or the Company) is a public company listed on the Toronto Stock Exchange (the "TSX") and incorporated under the Business Corporations Act (Alberta). The address of the Company's registered office is Suite 901, 1015-4th Street SW, Calgary, Alberta, Canada, T2R 1J4.

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

The financial statements were authorized for issue by the Company's Board of Directors on November 8, 2017.

2. BASIS OF PREPARATION

a) Statement of Compliance

The Company prepares its unaudited condensed financial statements in accordance with International Accounting Standard 34 – Interim Financial Reporting (IAS 34).

The accounting policies and method of computation followed in the preparation of the condensed financial statements are the same as those followed in the preparation of Bonterra's 2016 audited annual financial statements. These condensed financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the 2016 audited annual financial statements, which has been prepared in accordance with International Financial Reporting Standards (IFRS).

b) Future Accounting Pronouncements

In April 2016, the IASB issued its final amendments to IFRS 15 Revenue from Contracts with Customers, which replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. 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. Disclosure requirements have also been expanded. The standard is required to be adopted either retrospectively or using a modified retrospective approach for annual periods beginning on or after January 1, 2018, with early adoption permitted.

Bonterra will retrospectively adopt IFRS 15 on January 1, 2018. The Company has completed reviewing its various revenue streams and underlying contracts with customers, and concluded that the adoption of IFRS 15 will not have a material impact on Bonterra's financial statements. However, Bonterra will expand 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 and any impairment losses recognized on receivables arising from contracts with customers.

3. PROPERTY, PLANT AND EQUIPMENT

Cost (\$ 000s)	Oil and gas properties	Production facilities	Furniture fixtures & other equipment	Total property plant & equipment
Balance at December 31, 2016	1,280,953	315,039	2,082	1,598,074
Additions	44,661	18,211	56	62,928
Adjustment to decommissioning liabilities ⁽¹⁾	5,296	-	-	5,296
Balance at September 30, 2017	1,330,910	333,250	2,138	1,666,298

Accumulated depletion and depreciation (\$ 000s)	Oil and gas properties	Production facilities	Furniture fixtures & other equipment	Total property plant & equipment
Balance at December 31, 2016	(476,418)	(106,909)	(1,614)	(584,941)
Depletion and depreciation	(53,840)	(12,526)	(61)	(66,427)
Other	328	-	-	328
Balance at September 30, 2017	(529,930)	(119,435)	(1,675)	(651,040)

Carrying amounts as at:

(\$ 000s)				
December 31, 2016	804,535	208,130	468	1,013,133
September 30, 2017	800,980	213,815	463	1,015,258

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

The impairment of property, plant and equipment assets and any subsequent reversal of such impairment losses are recognized in the statement of comprehensive loss. There were no impairment losses or reversals recorded in the statement of comprehensive income for the nine months ended September 30, 2017 and 2016.

4. TRANSACTIONS WITH RELATED PARTIES

As at September 30, 2017, the Company's CEO, Chairman of the Board and a major shareholder has loaned the Company \$12,000,000 (December 31, 2016 - \$12,000,000). The loan bears interest at Canadian chartered bank prime less 5/8th of a percent and has no set repayment terms but is payable on demand. Security under the debenture is over all of the Company's assets and is subordinated to any and all claims in favour of the syndicate of senior lenders providing credit facilities to the Company. The Company's bank agreement requires that the above loan can only be repaid should the Company have sufficient available borrowing limits under the Company's credit facility. Interest paid on this loan during the first nine months of 2017 was \$196,000 (September 30, 2016 - \$186,000).

The Company received a management fee of \$nil plus the reimbursement of certain administrative expenses for the nine months ended September 30, 2017 (September 30, 2016 - \$15,000) for management services and office administration from Pine Cliff Energy Ltd. ("Pine Cliff"). This fee has been included in other income. On April 1, 2016, the management agreement was terminated. As at September 30, 2017, the Company had an account receivable from Pine Cliff of \$51,000 (December 31, 2016 - \$51,000).

5. SUBORDINATED PROMISSORY NOTE

As at September 30, 2017, Bonterra had \$12,500,000 (December 31, 2016 - \$12,500,000) outstanding on a subordinated note to a private investor. The terms of the subordinated promissory note are that it bears interest at five percent and is repayable after thirty days' written notice by either party. Security consists of a floating demand debenture over all of the Company's assets and is subordinated to any and all claims in favor of the syndicate of senior lenders providing credit facilities to the Company. Interest paid on the subordinated promissory note during the first nine months was \$467,000 (September 30, 2016 - \$383,000).

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

6. BANK DEBT

As at September 30, 2017, the Company has a bank facility of \$380,000,000 (December 31, 2016 - \$380,000,000) comprising of a \$330,000,000 syndicated revolving credit facility and a \$50,000,000 non-syndicated revolving credit facility. Amounts drawn under the bank facility at September 30, 2017 were \$345,322,000 (December 31, 2016 - \$329,204,000). Amounts borrowed under the bank facility bear interest at a floating rate based on the applicable Canadian prime rate or Banker's Acceptance rate, plus between 1.00 percent and 4.25 percent, depending on the type of borrowing and the Company's consolidated debt to EBITDA ratio. EBITDA is defined as net income for the period excluding finance costs, provision for current and deferred taxes, depletion and depreciation, share-option compensation, gain or loss on sale of assets and impairment of assets. The terms of the 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 each year based on the lender's interpretation of the Company's reserves, future commodity prices and costs. On November 1, 2017, the Company successfully renewed its available lending limit at \$380,000,000.

The amount available for borrowing under the bank facility is reduced by outstanding letters of credit. Letters of credit totaling \$2,990,000 were issued as at September 30, 2017 (December 31, 2016 - \$2,990,000). Security for the bank facility consists of various and floating demand debentures totaling \$750,000,000 (December 31, 2016 - \$750,000,000) over all of the Company's assets and a general security agreement with first ranking over all personal and real property.

The following is a list of the material covenants on the bank facility:

- The Company cannot exceed \$380,000,000 in consolidated debt (excluding accounts payable and accrued liabilities). As at September 30, 2017 consolidated debt is \$369,822,000.
- 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 39 percent for the current quarter.

Available cash flow is defined to be cash provided by operating activities excluding the change in non-cash working capital and decommissioning liabilities settled and including investment income received and all net proceeds of dispositions included in cash used in investing activities. At September 30, 2017, the Company is in compliance with all covenants.

7. DECOMMISSIONING LIABILITIES

At September 30, 2017, the estimated total undiscounted amount required to settle the decommissioning liabilities was \$317,978,000 (December 31, 2016- \$312,436,000). The provision has been calculated assuming a 2.0 percent inflation rate (December 31, 2016 – 2.0 percent inflation rate). These obligations will be settled at the end of the useful lives of the underlying assets, which extend up to 50 years into the future. This amount has been discounted using a risk-free interest rate of 2.85 percent (December 31, 2016 – 2.95 percent).

(\$ 000s)	
Decommissioning liabilities, December 31, 2016	100,941
Adjustment to decommissioning liabilities ⁽¹⁾	5,296
Liabilities settled during the period	(952)
Unwinding of the discount on decommissioning liabilities	2,252
Decommissioning liabilities, September 30, 2017	107,537

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

8. INCOME TAXES

The Company has the following tax pools, which may be used to reduce taxable income in future years, limited to the applicable rates of utilization:

(\$ 000s)	Rate of Utilization (%)	Amount
Undepreciated capital costs	20-100	94,200
Eligible capital expenditures	7	2,127
Share issue costs	20	341
Canadian oil and gas property expenditures	10	152,439
Canadian development expenditures	30	158,553
Canadian exploration expenditures	100	8,063
Federal income tax losses carried forward ⁽¹⁾	100	56,952
Provincial income tax losses carried forward ⁽²⁾	100	18,277
		490,952

⁽¹⁾ Federal income tax losses carried forward expire in the following years; 2035 - \$14,927,000; 2036 - \$39,521,000; 2037 - \$2,504,000

⁽²⁾ Provincial income tax losses carried forward expire in 2036 - \$15,773,000; 2037 - \$2,504,000

The Company has \$8,834,000 (December 31, 2016 - \$8,834,000) of investment tax credits that expire in the following years; 2021 - \$1,824,000; 2022 - \$1,735,000; 2023 - \$1,097,000; 2024 - \$1,241,000; 2025 - \$1,323,000; 2026 - \$1,105,000; 2027 - \$410,000; and 2035 - \$99,000.

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

9. SHAREHOLDERS' EQUITY

Authorized

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

	Number	Amount (\$ 000s)
Issued and fully paid - common shares		
Balance, December 31, 2016	33,302,435	763,788
Issued pursuant to the Company's share option plan	8,361	143
Transfer from contributed surplus to share capital		46
Balance, September 30, 2017	33,310,796	763,977

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

The weighted average common shares used to calculate basic and diluted net earnings per share for the nine months ended September 30 is as follows:

	Three Months		Nine Months	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Basic shares outstanding	33,310,796	33,143,435	33,309,168	33,143,435
Dilutive effect of share options ⁽¹⁾	-	143,708	2,280	41,549
Diluted shares outstanding	33,310,796	33,287,143	33,311,448	33,184,984

⁽¹⁾ The Company did not include 1,189,000 share options for the three months ended September 30, 2017 (September 30, 2016 – 2,163,000) and 1,156,000 share options for the nine months ended September 30, 2017 (September 30, 2016 2,163,000) in the dilutive effect of share options calculations as these share options were anti-dilutive.

For the three months ended September 30, 2017, the Company declared and paid dividends of \$9,993,000 (\$0.30 per share) (September 30, 2016 - \$9,943,000 (\$0.30 per share)). For the nine months ended September 30, 2017 the Company declared and paid dividends of \$29,978,000 (\$0.90 per share)(September 30, 2016 \$29,829,000 (\$0.90 per share)).

The Company provides an equity settled option plan for its directors, officers, employees and consultants. Under the plan, the Company may grant options for up to 3,331,080 (December 31, 2016 – 3,330,244) common shares. The exercise price of each option granted cannot be lower than the market price of the common shares on the date of grant and the option's maximum term is five years.

The changes in the Company's share option plan and related weighted average exercise prices for the nine months ended September 30, 2017 are presented below:

	Number of options	Weighted average exercise price
At January 1, 2017	2,737,000	\$30.50
Options granted	153,000	19.03
Options exercised ⁽¹⁾	(14,000)	20.46
Options forfeited	(134,000)	27.58
Options expired	(1,553,000)	31.51
At September 30, 2017	1,189,000	\$28.61

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

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

Range of exercise prices	Options outstanding			Options exercisable		
	Number outstanding at September 30, 2017	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at September 30, 2017	Weighted-average exercise price	
\$ 16.00 - \$ 30.00	1,037,000	1.1 years	\$ 24.55	886,000	\$ 25.64	
30.01 - 40.00	33,000	0.7 years	33.69	21,000	33.62	
40.01 - 65.00	119,000	0.3 years	58.07	104,000	59.13	
\$ 17.00 - \$ 65.00	1,189,000	1.0 years	\$ 28.16	1,011,000	\$ 29.26	

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 nine month period ended September 30, 2017, the Company granted 153,000 stock options with an estimated fair value of \$581,000 or \$3.80 per option using the Black-Scholes option pricing model with the following key assumptions:

September 30, 2017

Weighted-average risk free interest rate (%) ⁽¹⁾	0.81
Weighted-average expected life (years)	2.0
Weighted-average volatility (%) ⁽²⁾	48.87
Forfeiture rate (%)	7.79
Weighted average dividend yield (%)	6.40

⁽¹⁾ Risk-free interest rate is based on the weighted average Government of Canada benchmark bond yields for one, two, and three year terms to match corresponding vesting periods.

⁽²⁾ The expected volatility is measured as the standard deviation of expected share price returns based on statistical analysis of historical weekly share prices for a representative period.

10. OIL AND GAS SALES, NET OF ROYALTIES

(\$ 000s)	Three months		Nine months	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Oil and gas sales	46,349	46,236	148,374	120,896
Less:				
Crown royalties	(2,299)	(2,219)	(7,265)	(3,966)
Freehold, gross overriding royalties and other	(865)	(959)	(2,965)	(2,738)
Oil and gas sales, net of royalties	43,185	43,058	138,144	114,192

11. SUBSEQUENT EVENTS**i) Dividends**

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

Date declared	Record date	\$ per share	Date payable
October 2, 2017	October 16, 2017	0.10	October 31, 2017
November 1, 2017	November 15, 2017	0.10	November 30, 2017

ii) Share Options

On October 13, 2017 the Company granted two tranches of 891,500 share options (1,783,000 share options in total) to employees, directors and consultants with an exercise price of \$14.56, based on the market price immediately preceding the date of grant. The first share option tranche vests one year from the grant date and expire on October 13, 2019. The second share option tranche vests two years from the grant date and expire on October 13, 2020.