

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following report dated November 8, 2017 is a review of the operations and current financial position for the nine months ended September 30, 2017 for Bonterra Energy Corp. ("Bonterra" or "the Company") and should be read in conjunction with the unaudited condensed financial statements and the audited financial statements including the notes related thereto for the fiscal year ended December 31, 2016 presented under International Financial Reporting Standards (IFRS).

Use of Non-IFRS Financial Measures

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

The Company calculates payout ratio percentage by dividing cash dividends paid to shareholders by cash flow from operating activities, both of which are measures prescribed by IFRS which appear on our statements of cash flows. We calculate cash netback by dividing various financial statement items as determined by IFRS by total production for the period on a barrel of oil equivalent basis. The Company calculates net debt as long-term debt plus working capital deficiency (current liabilities less current assets).

Frequently Recurring Terms

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

Numerical Amounts

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

QUARTERLY COMPARISONS

	2017				2016		
As at and for the periods ended (\$ 000s except \$ per share)	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial							
Revenue - oil and gas sales	46,349	52,695	49,330	48,967	46,236	41,150	33,510
Cash flow from operations	25,491	27,370	24,540	31,537	19,219	13,392	11,146
Per share - basic and diluted	0.77	0.82	0.74	0.94	0.58	0.40	0.34
Dividend payout ratio	40%	37%	41%	32%	52%	75%	89%
Cash dividends per share	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Net earnings (loss)	(3,043)	2,978	475	(1,168)	(5,830)	(5,582)	(11,555)
Per share - basic and diluted	(0.09)	0.09	0.01	(0.03)	(0.18)	(0.17)	(0.35)
Capital expenditures, net of dispositions	14,121	19,416	30,129	12,270	17,424	9,420	1,683
Total assets	1,146,498	1,173,936	1,156,398	1,147,834	1,163,743	1,169,782	1,174,141
Working capital deficiency	28,260	29,759	39,483	24,921	26,361	18,429	13,115
Long-term debt	345,322	341,070	330,118	329,204	335,953	336,923	345,118
Shareholders' equity	517,719	529,844	535,742	543,824	549,870	564,075	575,925
Operations							
Oil (barrels per day)	8,038	8,287	7,533	7,467	8,197	7,780	8,325
NGLs (barrels per day)	1,000	843	813	911	942	877	845
Natural gas (MCF per day)	25,460	24,138	22,243	22,540	24,948	21,771	22,274
Total BOE per day	13,281	13,153	12,053	12,134	13,298	12,285	12,882

As at and for the periods ended (\$ 000s except \$ per share)	Q4	Q3	Q2 ⁽¹⁾	Q1
Financial				
Revenue - oil and gas sales	44,678	52,160	57,921	42,480
Cash flow from operations	27,808	36,024	17,960	26,079
Per share - basic and diluted	0.84	1.09	0.56	0.81
Payout ratio	54%	41%	81%	74%
Cash dividends per share	0.45	0.45	0.45	0.60
Net loss	(4,113)	(321)	(2,711)	(1,935)
Per share - basic and diluted	(0.13)	(0.01)	(0.08)	(0.06)
Capital expenditures, net of dispositions	8,384	14,402	13,952	21,760
Acquisition	-	-	153,230 ⁽²⁾	17,200 ⁽³⁾
Total assets	1,183,593	1,200,856	1,225,291	1,072,534
Working capital deficiency	29,804	29,080	27,558	37,633
Long-term debt	332,471	335,863	361,430	207,217
Shareholders' equity	595,805	610,793	599,911	613,886
Operations				
Oil (barrels per day)	8,424	9,177	8,823	8,128
NGLs (barrels per day)	710	753	677	791
Natural gas (MCF per day)	20,423	19,191	19,452	19,709
Total BOE per day	12,538	13,129	12,743	12,204

⁽¹⁾ Quarterly figures for Q2 2015 include the results of a purchase (the Acquisition) of primarily Pembina Cardium oil and gas assets (Pembina Assets) for the period of April 15, 2015 to December 31, 2015. Production includes 76 days for the Pembina Assets and 91 days for the original Bonterra assets.

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

⁽³⁾ Includes a deposit of \$17,200,000 for the Acquisition.

Business Environment and Sensitivities

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

	Q3-2017	Q2-2017	Q1-2017	Q4-2016	Q3-2016	Q2-2016	Q1-2016	Q4-2015
Crude oil								
WTI (U.S.\$/bbl)	48.30	48.28	51.91	49.29	44.94	45.59	33.45	42.18
WTI to MSW Stream Index								
Differential (U.S.\$/bbl) ⁽¹⁾	(2.89)	(2.26)	(3.60)	(3.09)	(3.02)	(3.14)	(3.78)	(2.51)
Foreign exchange								
U.S.\$ to Cdn\$	1.2524	1.3447	1.3230	1.3339	1.3051	1.2886	1.3748	1.3353
Bonterra average realized oil price (Cdn\$/bbl)	53.48	58.27	60.63	58.02	51.80	51.64	37.33	49.50
Natural gas								
AECO (Cdn\$/mcf)	1.45	2.77	2.68	3.08	2.31	1.39	1.82	2.45
Bonterra average realized gas price (Cdn\$/mcf)	1.81	3.03	2.97	3.32	2.47	1.48	2.02	2.61

⁽¹⁾ This differential accounts for the major difference between WTI and Bonterra's average realized price (before quality adjustments and foreign exchange).

The overall volatility in Bonterra's average realized commodity pricing can be impacted by numerous events or factors, including but not limited to:

- Worldwide crude oil supply and demand imbalance;
- Geo-political events that affect worldwide crude oil supply and demand;
- The value of the Canadian dollar compared to the US dollar;
- Access to markets;
- Weather; and
- Timing and duration of plant, refinery and pipeline maintenance.

Global and local supply and demand imbalances have placed continued pressure on oil, natural gas and liquids pricing throughout 2015, 2016, and into 2017 resulting in commodity price volatility. WTI benchmark pricing which had been steadily increasing from the low of \$30.62 US per bbl in February of 2016 to over \$50.00 US per barrel in December 2016 and into Q1 2017, retracted to slightly over \$48.00 US per barrel in Q2 and Q3 of 2017. This reduction has been attributed to persistently high crude oil and refined product inventories, particularly in the United States. Recent data points suggest that reductions in crude oil inventories have resumed. If the 2016 OPEC agreement is extended through 2018, this trend is anticipated to continue, although it may be tempered somewhat if US shale production continues to increase. Recently, several export pipeline projects were approved including TransMountain Pipeline, Enbridge Line 3 Expansion and Keystone XL. Completion of any of these projects may have a positive effect on the movement and pricing of Canadian barrels.

The AECO benchmark price for natural gas has deteriorated through the third quarter of 2017. The operator of the main provincial natural gas transmission pipeline introduced a new methodology for managing pipeline capacity during periods of maintenance whereby interruptible delivery service was cut rather than firm service receipts. This new methodology resulted in limiting access to certain storage facilities causing severe AECO price volatility (primarily downward). With the onset of winter, less maintenance and cooler temperatures are expected, which is anticipated to have a positive effect on natural gas prices.

The following chart shows the Company's sensitivity to key commodity price variables. The sensitivity calculations are performed independently and show the effect of changing one variable while holding all other variables constant.

Annualized sensitivity analysis on cash flow, as estimated for 2017⁽¹⁾

Impact on cash flow	Change (\$)	\$000s	\$ per share ⁽²⁾
Realized crude oil price (\$/bbl)	1.00	2,724	0.08
Realized natural gas price (\$/mcf)	0.10	881	0.03
U.S.\$ to Canadian \$ exchange rate	0.01	343	0.01

⁽¹⁾ This analysis uses current royalty rates, annualized estimated average production of 12,900 BOE per day and no changes in working capital

⁽²⁾ Based on annualized basic weighted average shares outstanding of 33,309,578

Business Overview, Strategy and Key Performance Drivers

During the third quarter, Bonterra maintained average production at 13,281 BOE per day with a 27 percent decrease in capital spending compared to the second quarter of 2017. Year over year, the Company was able to grow cash flow from operations by 77 percent for the first nine months of 2017 compared to the first nine months of 2016, primarily due to improved commodity prices.

The Company averaged 12,834 BOE per day for the first nine months of 2017, compared to 12,823 BOE per day for the same period in 2016. Bonterra continues to manage production volumes on a month to month basis and uses commodity prices, availability of drilling and completion service providers and seasonal weather conditions to determine its capital expenditures so as to maximize cash flow and manage debt levels over an annual period. During the first quarter of 2017, the Company experienced challenges accessing pumping services, thereby preventing new wells from being placed on production until the second quarter. As a result of this timing delay bringing new production on-stream, Bonterra now anticipates average 2017 annual production will be at or slightly under the low end of its annual production guidance of 13,000 to 13,500 BOE per day.

In order to mitigate against similar service company availability issues during the first quarter of 2018, the Company will drill five (4.5 net) additional wells in November and December, which were originally scheduled for the first quarter of 2018 as part of the 2018 capital program. These wells will be completed and tied-in during the fourth quarter of 2017, which is anticipated to have a positive impact on Bonterra's 2017 exit production rate. The Company expects its 2017 annual capital spending to be approximately \$73 million.

During the first nine months of 2017, Bonterra invested approximately \$47 million to drill 25 gross operated (23.5 net) horizontal wells and complete and tie-in 24 gross (21.1 net) wells (of which three (1.7 net) wells were drilled in 2016, but not completed until 2017). The Company will place the remaining four (4.0 net) wells drilled but not completed on production during the fourth quarter. In addition, approximately \$16 million was directed towards primarily adding and improving infrastructure.

On November 1, 2017, following the semi-annual review of its bank facility, the Company's borrowing base was successfully renewed at \$380 million. The bank facility is comprised of a \$330 million syndicated revolving credit facility, and a \$50 million non-syndicated revolving credit facility. The revolving period on the bank facility expires on April 30, 2018, with a maturity date of April 30, 2019, subject to an annual review. As at September 30, 2017, Bonterra had \$345 million drawn on the \$380 million bank facility. These credit facilities provide the Company with sufficient liquidity and financial flexibility to execute its business plan.

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

Drilling

	Three months ended						Nine months ended			
	September 30,		June 30,		September 30,		September 30,		September 30,	
	2017		2017		2016		2017		2016	
	Gross ⁽¹⁾	Net ⁽²⁾								
Crude oil horizontal-operated	4	4.0	8	8.0	11	10.7	25	23.5	17	16.0
Crude oil horizontal-non-operated	-	-	4	1.1	-	-	6	1.5	-	-
Total	4	4.0	12	9.1	11	10.7	31	25.0	17	16.0
Success rate	100%		100%		100%		100%		100%	

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

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

During the first quarter of 2017, the Company placed three gross (1.7 net) wells on production that were drilled in the later part of 2016. In addition, the Company drilled 25 gross (23.5 net) wells, of which 21 were put on production during the first three quarters of 2017. The remaining four wells are expected to be on production in the fourth quarter of 2017.

Also six gross (1.5 net) non-operated wells were drilled and completed during the first nine months of 2017, of which three (0.5 net) were put on production. The remaining three wells are expected to be on production in Q4 2017.

Production

	Three months ended			Nine months ended	
	September 30, 2017	June 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Crude oil (barrels per day)	8,038	8,287	8,197	7,954	8,101
NGLs (barrels per day)	1,000	843	942	886	888
Natural gas (MCF per day)	25,460	24,138	24,948	23,959	23,005
Average BOE per day	13,281	13,153	13,298	12,834	12,823

Production volumes for the first nine months of 2017 were comparable to the first nine months of 2016, reflecting the stable and sustainable nature of Bonterra's asset base. In the first quarter of 2017, challenges procuring pumping services caused delays bringing eleven (9.6 net) new wells on-stream until the second quarter of 2017. This delay resulted in a substantial reduction in production volumes for the first nine months of 2017. During the third quarter, production increased 128 BOE per day compared to the second quarter of 2017, despite 530 BOE per day being shut-in during the third quarter due to well workovers, pipeline restrictions and non-operated facility turnarounds.

Cash Netback

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

\$ per BOE	Three months ended			Nine months ended	
	September 30, 2017	June 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Production volumes (BOE)	1,221,852	1,196,897	1,223,384	3,503,560	3,513,615
Gross production revenue	37.93	44.03	37.79	42.35	34.41
Royalties	(2.59)	(3.06)	(2.60)	(2.92)	(1.91)
Production costs	(12.54)	(12.27)	(12.43)	(12.74)	(11.66)
Field netback	22.80	28.70	22.76	26.69	20.84
General and administrative	(1.72)	(1.60)	(1.11)	(1.75)	(1.43)
Interest and other	(3.49)	(3.26)	(3.82)	(3.46)	(3.67)
Cash netback	17.59	23.84	17.83	21.48	15.74

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

Oil and Gas Sales

	Three months ended			Nine months ended	
	September 30, 2017	June 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Revenue - oil and gas sales (\$ 000s)	46,349	52,695	46,236	148,374	120,896
Average realized prices:					
Crude oil (\$ per barrel)	53.48	58.27	51.80	57.38	46.81
NGLs (\$ per barrel)	27.81	27.48	17.29	28.67	17.62
Natural gas (\$ per MCF)	1.81	3.03	2.47	2.58	2.02
Average (\$ per BOE)	37.93	44.03	37.79	42.35	34.41
Average BOE per day	13,281	13,153	13,298	12,834	12,823

Revenue from oil and gas sales for the first nine months of 2017 increased by \$27,478,000 in 2017, or 23 percent, compared to the same period a year ago. This increase was primarily driven by higher oil prices. The quarter over quarter decrease in oil and gas sales was primarily due to decreased oil and gas prices.

The Company's product split on a revenue basis for 2017 is approximately 89 percent weighted towards crude oil and NGLs.

Royalties

(\$ 000s)	Three months ended			Nine months ended	
	September 30, 2017	June 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Crown royalties	2,299	2,611	2,219	7,265	3,966
Freehold, gross overriding and other royalties	865	1,048	959	2,965	2,738
Total royalties	3,164	3,659	3,178	10,230	6,704
Crown royalties - percentage of revenue	5.0	5.0	4.8	4.9	3.3
Freehold, gross overriding and other royalties - percentage of revenue	1.9	2.0	2.1	2.0	2.3
Royalties - percentage of revenue	6.9	7.0	6.9	6.9	5.6
Royalties \$ per BOE	2.59	3.06	2.60	2.92	1.91

Royalties paid by the Company consist of crown royalties to the Provinces of Alberta, Saskatchewan and British Columbia and non-crown royalties. Total royalties on a per BOE basis increased by \$1.01 per BOE for the first nine months of 2017 compared to the same period in 2016, primarily due to higher commodity prices. Quarter over quarter royalties on a per BOE basis decreased primarily due to a decrease in commodity prices.

Production Costs

(\$ 000s except \$ per BOE)	Three months ended			Nine months ended	
	September 30, 2017	June 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Production costs	15,319	14,694	15,205	44,638	40,967
\$ per BOE	12.54	12.27	12.43	12.74	11.66

Production costs for the first nine months of 2017 increased by \$1.08 per BOE compared to the first nine months of 2016. The increase was mainly due to required facility and well maintenance costs that were undertaken throughout the first nine months of 2017, whereas in the prior year, the Company deferred most of its maintenance programs until the third quarter of 2016. Further, in the first quarter of 2016, Bonterra elected to shut-in higher production cost areas due to extremely depressed crude oil prices experienced during that period.

Quarter over quarter, production costs increased slightly on a per BOE basis primarily due to increased maintenance and facility turnaround costs incurred in the third quarter of 2017 compared to the second quarter of 2017. The Company will continue to manage its well workover and facility maintenance programs to maximize cash netbacks and increase cash flow.

Other Income

(\$ 000s)	Three months ended			Nine months ended	
	September 30, 2017	June 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Investment income	18	16	2	41	8
Administrative income	85	56	46	189	144
	103	72	48	230	152

The market value of the investments held by the Company at September 30, 2017 was \$941,000 (September 30, 2016 - \$1,516,000). The carrying value decreased due to a decrease in the investments carrying value. Dispositions resulted in a gain on sale of \$nil (September 30, 2016 - \$3,047,000) which was recorded as an equity transfer between accumulated other comprehensive income and retained earnings.

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

General and Administration (G&A) Expense

(\$ 000s except \$ per BOE)	Three months ended			Nine months ended	
	September 30, 2017	June 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Employee compensation expense	959	1,058	914	3,528	2,861
Office and administrative expense	1,137	860	448	2,603	2,163
Total G&A expense	2,096	1,918	1,362	6,131	5,024
\$ per BOE	1.72	1.60	1.11	1.75	1.43

The increase of \$667,000 in employee compensation expense for the first nine months of 2017 compared to the same period in 2016 is primarily due to a one-time bonus paid to staff and consultants in lieu of compensation increases over the past two years and to stay competitive with similar sized companies in the resource industry. The Company has a bonus plan in which the bonus pool consists of a range between 2.5 percent to 3.5 percent of earnings before income taxes. The Company firmly believes that tying employee compensation (including the use of stock options) to corporate performance clearly aligns the interests of the employees with those of shareholders.

Office and administration expense for the first nine months of 2017 increased compared to the same period in 2016 primarily due to an increase in the allowance for doubtful accounts, which was partially offset by a decrease in consulting fees, continuous disclosure fees, lower banking renewal fees and more overhead recoveries resulting from fewer wells being shut-in compared to the first nine months of 2016. The quarter over quarter increase in office and administrative expense is primarily due to an increase in the allowance for doubtful accounts.

Finance Costs

(\$ 000s except \$ per BOE)	Three months ended			Nine months ended	
	September 30, 2017	June 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Interest on long-term debt	4,142	3,759	4,519	11,678	12,468
Other interest	231	217	205	664	570
Interest expense	4,373	3,976	4,724	12,342	13,038
\$ per BOE	3.58	3.32	3.86	3.52	3.71
Unwinding of the discounted value	763	748	593	2,252	1,848
Total finance costs	5,136	4,724	5,317	14,594	14,886

Interest on long-term debt decreased slightly for the first nine months of 2017 compared to the first nine months of 2016 as the Company had lower interest rates due to a lower net debt to EBITDA ratio. Interest rates are determined quarterly for the subsequent quarter by the ratio of total debt (excluding accounts payable and accrued liabilities) to current quarter EBITDA (defined as net income excluding finance costs, provision for current and deferred taxes, depletion and depreciation, share-option compensation, gain or loss on sale of assets and impairment of assets) multiplied by four.

Other interest relates to amounts paid to a related party (see related party transactions) and a \$12,500,000 subordinated promissory note from a private investor. For more information about the subordinated promissory note, refer to Note 5 of the September 30, 2017 condensed financial statements.

A one percent increase (decrease) in the Canadian prime rate would decrease (increase) both annual net earnings and comprehensive income by approximately \$2,608,000.

Share-Option Compensation

(\$ 000s)	Three months ended			Nine months ended	
	September 30, 2017	June 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Share-option compensation	1,029	1,239	1,558	3,907	4,062

Share-option compensation is a statistically calculated value representing the estimated expense of issuing employee stock options. The Company records a compensation expense over the vesting period based on the fair value of options granted to employees, directors and consultants.

Share-option compensation decreased by \$155,000 from the same period a year ago due to 153,000 share-options being issued in the first nine months of 2017 compared to 935,000 share-options issued in 2016. Subsequent to the end of the quarter, on October 13, 2017 the Company granted two separate 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.

Based on the outstanding options as of September 30, 2017, the Company has an unamortized expense of \$344,000, of which \$64,000 will be recorded for the remainder of 2017 and \$280,000 thereafter. For more information about options issued and outstanding, refer to Note 9 of the September 30, 2017 condensed financial statements.

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

(\$ 000s)	Three months ended			Nine months ended	
	September 30, 2017	June 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Depletion and depreciation	22,349	22,535	27,064	66,427	78,174

The provision for depletion and depreciation decreased by \$11,747,000 for the first nine months of 2017 compared to the same period in 2016. The decrease in depletion and depreciation is primarily due to lower depletion rates resulting from an increase in previously estimated reserves over 2016. There were no impairment provisions recorded for the three and nine months ended September 30, 2017 and 2016.

Taxes

The Company recorded a total tax expense of \$2,267,000 (2016 – total tax recovery of \$5,802,000). The increase in the total tax expense is due to an increase in net earnings before income taxes in the first nine months of 2017 and provincial tax loss carryback for taxes paid in prior periods.

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

Net Earnings (Loss)

(\$ 000s except \$ per share)	Three months ended			Nine months ended	
	September 30, 2017	June 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Net earnings (Loss)	(3,043)	2,978	(5,830)	410	(22,967)
\$ per share - basic	(0.09)	0.09	(0.18)	0.01	(0.69)
\$ per share - diluted	(0.09)	0.09	(0.18)	0.01	(0.69)

Net earnings for the first nine months of 2017 increased by \$23,377,000 compared to the first nine months of 2016. The increase in net earnings was mainly due to increased commodity prices and a decrease in depletion and depreciation. The increase in net earnings was partially offset by an increase in royalties, production costs, and an income tax recovery in 2016.

The quarter over quarter decrease in net earnings was mainly due to a decrease in commodity prices for both oil and gas.

Other Comprehensive Income (Loss)

Other comprehensive income for 2017 consists of an unrealized loss before tax on investments (including investment in a related party) of \$680,000 relating to a decrease in the investments' fair value (September 30, 2016 – unrealized gain of \$2,760,000). Realized gains decrease accumulated other comprehensive income as these gains are transferred to retained earnings. Other comprehensive income varies from net earnings by unrealized changes in the fair value of Bonterra's holdings of investments including the investment in a related party, net of tax.

Cash Flow from Operations

(\$ 000s except \$ per share)	Three months ended			Nine months ended	
	September 30, 2017	June 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Cash flow from operations	25,491	27,370	19,219	77,401	43,757
\$ per share - basic	0.77	0.82	0.58	2.32	1.32
\$ per share - diluted	0.77	0.82	0.58	2.32	1.32

In the first nine months of 2017, cash flow from operations increased by \$33,644,000 compared to the first nine months of 2016. This was primarily due to an increase in revenue from oil and gas sales from higher commodity prices and an increase in non-cash-working capital. The quarter over quarter decrease in cash flow of \$1,879,000 is primarily due to a decrease in commodity prices.

Related Party Transactions

Bonterra holds 1,034,523 (December 31, 2016 – 1,034,523) common shares in Pine Cliff Energy Ltd. ("Pine Cliff") which represents less than one percent ownership in Pine Cliff's outstanding common shares. Pine Cliff's common shares had a fair market value as of September 30, 2017 of \$662,000 (December 31, 2016 of \$1,169,000). Pine Cliff paid a management fee to the Company of \$nil (September 30, 2016 - \$15,000) plus the reimbursement of certain administrative expenses. Services provided by the Company include mainly executive and marketing services. All services performed are charged at estimated fair value. On April 1, 2016, the management agreement was terminated. As at September 30, 2017, the Company had an account receivable from Pine Cliff of \$51,000 (December 31, 2016 – \$51,000).

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

Liquidity and Capital Resources

Net Debt to Cash Flow from Operations

Bonterra continues to focus on monitoring overall debt while managing its cash flow, capital expenditures and dividend payments. The Company's net debt to twelve month trailing cash flow ratio as of September 30, 2017 was 3.4 to 1 times (versus 4.7 to 1 times at December 31, 2016). The decrease in net debt to cash flow from December 31, 2016 is mainly due to a better commodity environment for the first nine months of 2017 compared to the same period in 2016. To manage its bank debt, Bonterra continues to review its capital expenditures during this volatile commodity price environment and has maintained the monthly dividend payments at \$0.10 per common share. The Company will continue to assess its cash flow, dividend and capital expenditures on a quarterly basis.

Working Capital Deficiency and Net Debt

(\$ 000s)	September 30, 2017	June 30, 2017	December 31, 2016	September 30, 2016
Working capital deficiency	28,260	29,759	24,921	26,361
Long-term bank debt	345,322	341,070	329,204	335,953
Net Debt	373,582	370,829	354,125	362,314

The Company has sufficient availability on its credit facility to repay both the related party loan and the subordinated promissory note if required. The Company manages net debt during each quarter by monitoring capital spending and dividends paid compared to cash flow from operations.

Net debt is a combination of long-term bank debt and working capital. Net debt for September 30, 2017 increased by \$19,457,000 from December 2016 primarily due to capital spent in the first quarter, on drilling thirteen (11.5 net) horizontal wells, of which only two (2.0 net) wells were tied-in due to the lack of pumping services available, thereby delaying production from the remaining eleven wells into the second quarter. Cash flow was also negatively affected by a decline in commodity prices in third quarter. Net debt is expected to remain unchanged in the fourth quarter as the Company plans to drill an additional five wells to alleviate potential timing issues with securing pumping services in the first quarter of 2018 when demand for these services are usually high.

Working capital is calculated as current liabilities less current assets. The Company finances its working capital deficiency using cash flow from operations, its long-term bank facility, share issuances, option exercises, sale of non-core assets and investments and adjustments of dividend payments. Included in the working capital deficiency at September 30, 2017 is \$24.5 million of debt relating to the subordinated promissory note and the amount due to a related party.

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

Capital Expenditures

During the nine months ended September 30, 2017, the Company incurred capital expenditures of \$63,666,000 (September 30, 2016 - \$28,581,000). The costs primarily relate to the drilling of 25 gross (23.5 net) Cardium operated horizontal wells with related infrastructure costs and six gross (1.5 net) Cardium non-operated wells, of which twenty one were completed, equipped and tied-in. The remaining four operated wells were drilled in the third quarter but were completed and placed on production early in the fourth quarter and the four non-operated wells are expected to be on production in the fourth quarter as well. The Company also incurred equipment and tie-in costs related to three gross (1.7 net) Cardium operated wells that were drilled and completed in 2016.

Liability Management Ratio ("LMR") Update

The Company currently has an LMR rating of 2.03 and does not expect that with its current LMR there will be any regulatory impediments to completing future potential acquisitions.

Long-term Debt

Long-term debt represents the outstanding draws from the Company's bank facility as described in the notes to the Company's condensed financial statements. As of September 30, 2017, the Company has a bank facility with a limit of \$380,000,000 (December 31, 2016 - \$380,000,000) that is comprised of a \$330,000,000 syndicated revolving credit facility and a \$50,000,000 non-syndicated revolving credit facility. Amounts drawn under this bank facility at September 30, 2017 totaled \$345,322,000 (December 31, 2016 - \$329,204,000). The interest rates for the nine month period ended September 30, 2017 on the Company's Canadian prime rate loan and Banker's Acceptances are between four to six percent. The loan is revolving to April 30, 2018 with a maturity date of April 30, 2019, subject to annual review. The credit facilities have no fixed terms of repayment.

The available lending limit of the bank facility is reviewed semi-annually on or before April 30 and October 31 each year based mainly on the lender's interpretation of the Company's reserves, future commodity prices and costs. On November 1, 2017, the Company successfully renewed its available lending limit at \$380,000,000.

Advances drawn under the bank facility are secured by a fixed and floating charge debenture over the assets of the Company. In the event the bank facility is not extended or renewed, amounts drawn under the facility would be due and payable on the maturity date. The size of the committed credit facilities is based primarily on the value of the Company's producing petroleum and natural gas assets and related tangible assets as determined by the lenders. For more information see Note 6 of the September 30, 2017 condensed financial statements.

Shareholders' Equity

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

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

	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 provides a stock option plan for its directors, officers, employees and consultants. Under the plan, the Company may grant options for up to 3,331,080 (December 31, 2016 – 3,330,244) common shares. The exercise price of each option granted will not be lower than the market price of the common shares on the date of grant and the option's maximum term is five years. For additional information regarding options outstanding, see Note 9 of the September 30, 2017 condensed financial statements.

Dividend Policy

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)) Bonterra's dividend policy is regularly monitored and is dependent upon production, commodity prices, cash flow from operations, debt levels and capital expenditures. With its large inventory of undrilled locations, Bonterra continues to be well positioned to provide its shareholders with a combination of sustainable growth and meaningful dividend income. Bonterra's dividend payout ratio based on cash flow from operations was 39 percent for the nine months ended September 30, 2017 (68 percent for the nine months ended September 30, 2016).

Bonterra's dividends to its shareholders are funded by a portion of cash flow from operating activities with the remaining cash flow directed towards capital spending and the repayment of debt. To the extent that the excess cash flow from operations after dividends is not sufficient to cover capital spending, the shortfall is funded by funds from the exercising of employee stock options, the sale of investments and by drawdowns on Bonterra's bank facility. Bonterra intends to provide dividends to shareholders that are sustainable to the Company with consideration to its liquidity and long-term operational strategy. In addition, since the level of dividends is highly dependent upon cash flow generated from operations, which fluctuates significantly in relation to changes in financial and operational performance, commodity prices, interest and exchange rates and many other factors, future dividends cannot be assured.

Quarterly Financial Information

For the periods ended (\$ 000s except \$ per share)	2017				2016		
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue - oil and gas sales	46,349	52,695	49,330	48,967	46,236	41,150	33,510
Cash flow from operations	25,491	27,370	24,540	31,537	19,219	13,392	11,146
Net earnings (loss)	(3,043)	2,978	475	(1,168)	(5,830)	(5,582)	(11,555)
Per share - basic	(0.09)	0.09	0.01	(0.03)	(0.18)	(0.17)	(0.35)
Per share - diluted	(0.09)	0.09	0.01	(0.03)	(0.18)	(0.17)	(0.35)

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

The fluctuations in the Company's revenue and net earnings from quarter to quarter are caused by variations in production volumes, realized commodity pricing and the related impact on royalties, production, G&A and finance costs. In the first and second quarters of 2016, net earnings and cash flow are lower than most other periods due to a significant decrease in commodity prices.

Critical Accounting Estimates

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

Forward-Looking Information

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

All such forward-looking information is based on certain assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances. The risks, uncertainties, and assumptions are difficult to predict and may affect operations, and may include, without limitation: foreign exchange fluctuations; equipment and labour shortages and inflationary costs; general economic conditions; industry conditions; changes in applicable environmental, taxation and other laws and regulations as well as how such laws and regulations are interpreted and enforced; the ability of oil and natural gas companies to raise capital; the effect of weather conditions on operations and facilities; the existence of operating risks; volatility of oil and natural gas prices; oil and gas product supply and demand; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future

obligations; increased competition; stock market volatility; opportunities available to or pursued by us; and other factors, many of which are beyond our control. The foregoing factors are not exhaustive.

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

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

Internal Controls Over Financial Reporting

The Company is required to comply with National Instrument 52-109 “Certification of Disclosure in Issuers’ Annual and Interim Filings.” The certification of interim filings for the interim period ended September 30, 2017 requires that Bonterra disclose in the interim MD&A any changes in the Company’s internal control over financial reporting that occurred during the period that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting. Bonterra confirms that no such changes were made to its internal controls over financial reporting during the nine months ended September 30, 2017.

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