Bonterra Energy Corp.

For the Six Months ended June 30, 2018

TSX: **BNE**
www.bonterraenergy.com

BONTERRA ENERGY REPORTS SECOND QUARTER AND SIX MONTHS ENDED JUNE 30, 2018 FINANCIAL AND OPERATING RESULTS

HIGHLIGHTS

As at and for the periods ended ($ 000s except for $ per share and $ per BOE)		Three months ended **June 30, 2018**	Three months ended June 30, 2017	Six months ended **June 30, 2018**	Six months ended June 30, 2017
FINANCIAL					
Revenue - realized oil and gas sales		**67,458**	52,695	**124,583**	102,025
Funds flow (1)		**37,642**	28,508	**65,601**	53,751
Per share - basic and diluted		**1.13**	0.86	**1.97**	1.61
Dividend payout ratio		**27%**	35%	**30%**	37%
Cash flow from operations		**31,908**	27,370	**61,785**	51,910
Per share - basic and diluted		**0.96**	0.82	**1.85**	1.56
Dividend payout ratio		**31%**	37%	**32%**	38%
Cash dividends per share		**0.30**	0.30	**0.60**	0.60
Net earnings (loss)		**8,925**	2,978	**12,320**	3,453
Per share - basic and diluted		**0.27**	0.09	**0.37**	0.10
Capital expenditures, net of dispositions		**18,970**	19,416	**55,138**	49,545
Total assets				**1,147,501**	1,173,936
Working capital deficiency				**27,069**	29,759
Long-term debt				**303,413**	341,070
Shareholders' equity				**503,979**	529,844
OPERATIONS					
Oil	-barrels per day	**8,743**	8,287	**8,391**	7,912
	-average price ($ per barrel)	**76.51**	58.27	**72.35**	59.39
NGLs	-barrels per day	**984**	843	**942**	828
	-average price ($ per barrel)	**43.69**	27.48	**41.32**	29.19
Natural gas	- MCF per day	**25,317**	24,138	**25,011**	23,196
	- average price ($ per MCF)	**1.16**	3.03	**1.69**	3.00
Total barrels of oil equivalent per day (BOE) (2)		**13,946**	13,153	**13,501**	12,606

(1) Funds flow is not a recognized measure under IFRS. For these purposes, the Company defines funds flow as funds provided by operations including proceeds from sale of investments and investment income received excluding the effects of changes in non-cash working capital items and decommissioning expenditures settled.

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

REPORT TO SHAREHOLDERS

Oil prices in the second quarter of 2018 continued to be volatile, however there are currently indications that a higher base price has been established. After a strong rally in the first quarter, followed by continued strengthening in the second quarter and assuming the rally continues for the remainder of 2018, the broader energy sector will have allocation decisions to make based on available free cash flow. For now Bonterra will continue to allocate free cash flow to debt reduction.

The current quarter was one of Bonterra's strongest in recent history, as evidenced by an increase in production to just under 14,000 BOE per day, strong funds flow of $37.6 million, positive net earnings of $8.9 million and the generation of free cash flow all of which continues to improve the Company's financial strength. Bonterra realized strong netbacks in the second quarter mainly due to higher WTI and natural gas liquids ("NGLs") benchmark pricing coupled with an advantageous foreign exchange rate for USD/CAD. The Company remains focused on being a low-cost producer, with industry-low decline rates and a large inventory of economic undrilled locations that will support its sustainability model for many years into the future.

By being consistent with financial and operational practices over the past few years through challenging commodity markets, Bonterra is well positioned to continue executing on our strategy while taking steps to improve balance sheet flexibility. The Company maintains a strategic advantage due to its attractive, high-netbacks per BOE, and a Cardium-focused asset base which requires less than 50 percent of overall funds flow to maintain existing production volumes. The balance of funds flow can continue to be directed towards paying dividends to shareholders and reducing debt to a level that is more in line with industry peers. In the event the Company is able to further lower debt levels due to continued favourable oil prices, it may elect to increase capital expenditures to grow production volumes, take a measured approach to increasing the dividend over time, introduce a share buyback plan or a combination of these options.

Bonterra is very pleased with its strong financial and operational results during the second quarter of 2018, with highlights that include:

- Funds flow of $37.6 million, or $1.13 per share, a 32 percent increase compared to Q2 2017.
- Quarterly production of 13,946 BOE per day, six percent higher than Q2 2017 volumes of 13,153 BOE per day and seven percent higher than Q1 2018.
- Capital expenditures of approximately $19 million, representing approximately 25 percent of the $75 million capital budget for the year. Bonterra anticipates the majority of the remaining 2018 capital budget to be spent in the third quarter.
- Cash netbacks of $30.06 per BOE compared to $23.81 per BOE in Q1 2018 and $23.84 in Q2 2017, representing a 26 percent increase over both periods.
- Production costs of $13.01 per BOE, 10 percent lower than the $14.49 per BOE in Q1 2018.
- Realized a 31 percent higher average Canadian crude oil price of $76.51 per barrel in Q2 2018 over Q2 2017, and a 21 percent higher average overall price of $53.15 per BOE in Q2 2018 relative to the same period in 2017.
- Net debt of $330.5 million, approximately $8.1 million lower than the Q1 2018 ending net debt level of $338.6 million and $40.3 million less than the $370.8 million at the end of Q2 2017.
- Net earnings of $8.9 million compared to net earnings of $3.0 million for Q2 2017.
- Continued stable monthly cash dividend payments to shareholders, which represented a dividend payout ratio of 27 percent of funds flow.

Outlook

Global oil prices have seen a healthy recovery over the past two quarters which has contributed to energy companies posting improved results and stronger project economics. Global demand growth has increased by approximately 1.5 million barrels per day and is now approximately 100 million barrels per day and remains strong. Global supply was also reduced in 2018 when OPEC and Russia decided to reduce their production volumes by as much as 1.4 million barrels per day. This supply/demand imbalance is one of the main factors in the recent oil price increase. The forward price outlook for oil and NGLs remains encouraging for the remainder of the year and into 2019. Bonterra is uniquely positioned with approximately 94 percent of Company revenue stemming from light oil and NGLs production. The Canadian natural gas markets continue to be challenging; ongoing issues due to a lack of sufficient take away capacity and a supply glut across much of North America has caused severe price deterioration. Since Bonterra has successfully established firm service transportation commitments on approximately 90 percent of its natural gas production, it has actively mitigated some of these challenges. Regardless, a key focus for the energy industry needs to be the continued sanctioning and building of additional pipelines and transportation options for the benefit of all Canadians.

Bonterra has maintained a focus on serving shareholders by remaining patient, focusing on the long term, and generating steady funds flow, in order to continue to pay a meaningful dividend on a monthly basis. The Company provides exposure to a low-cost, oil-weighted producer with one of the lowest production decline rates in the industry at approximately 22 percent. Shareholders benefit from upside exposure to the Pembina Cardium pool, and a large inventory of low-risk, highly economic undrilled locations which enhance sustainability and the future outlook for the Company. With ongoing conservative management of the business coupled with the strengthening in oil prices, Bonterra is well positioned to grow production, reserves and funds flow, translating into further value creation for all shareholders.

Bonterra's Board of Directors is pleased to welcome Mr. Dan Reuter, Managing Director of Oberndorf Enterprises, a significant shareholder of Bonterra, to the Board effective August 8, 2018. Mr. Reuter brings a wealth of knowledge regarding capital allocation, strategy and corporate governance matters, as well as valuable insights into U.S. institutional shareholder perspectives.

For the balance of 2018, Bonterra anticipates that approximately 94 percent of revenue will be derived from crude oil and NGLs, which positions the Company to take advantage of the improving commodity price environment. Depending on commodity prices, the Company remains on target to meet annual production guidance of 13,200 to 13,500 BOE per day while targeting a net debt to funds flow ratio in a range between 2.1 to 2.5 times at year end 2018.

Thank you once again for your continued support and loyalty.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following report dated August 8, 2018 is a review of the operations and current financial position for the six months ended June 30, 2018 for Bonterra Energy Corp. ("Bonterra" or the "Company") and should be read in conjunction with the unaudited condensed financial statements and the audited financial statement including the notes related thereto for the fiscal year ended December 31, 2017 presented under International Financial Reporting Standards (IFRS).

Use of Non-IFRS Financial Measures

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

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

Frequently Recurring Terms

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

Numerical Amounts

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

QUARTERLY COMPARISONS

As at and for the periods ended	2018		2017			
($ 000s except $ per share)	**Q2**	Q1	Q4	Q3	Q2	Q1
Financial						
Revenue - oil and gas sales	**67,458**	57,124	54,192	46,349	52,695	49,330
Cash flow from operations	**31,908**	29,877	26,472	25,491	27,370	24,540
Per share - basic and diluted	**0.96**	0.90	0.79	0.77	0.82	0.74
Payout ratio	**31%**	33%	38%	40%	37%	41%
Cash dividends per share	**0.30**	0.30	0.30	0.30	0.30	0.30
Net earnings (loss)	**8,925**	3,395	2,096	(3,043)	2,978	475
Per share - basic and diluted	**0.27**	0.10	0.06	(0.09)	0.09	0.01
Capital expenditures	**18,970**	36,168	18,775 (1)	14,121	19,416	30,129
Disposition	**-**	-	56,752 (1)	-	-	-
Total assets	**1,147,501**	1,142,670	1,125,551	1,146,498	1,173,936	1,156,398
Working capital deficiency	**27,069**	46,630	27,790	28,260	29,759	39,483
Long-term debt	**303,413**	291,994	292,212	345,322	341,070	330,118
Shareholders' equity	**503,979**	504,240	510,260	517,719	529,844	535,742
Operations						
Oil (barrels per day)	**8,743**	8,034	7,766	8,038	8,287	7,533
NGLs (barrels per day)	**984**	900	963	1,000	843	813
Natural gas (MCF per day)	**25,317**	24,701	24,466	25,460	24,138	22,243
Total BOE per day	**13,946**	13,051	12,807	13,281	13,153	12,053

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

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

Business Environment and Sensitivities

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

	Q2-2018	Q1-2018	Q4-2017	Q3-2017	Q2-2017	Q1-2017	Q4-2016	Q3-2016
Crude oil								
WTI (U.S.$/bbl)	**67.88**	62.87	55.40	48.30	48.28	51.91	49.29	44.94
WTI to MSW Stream Index Differential (U.S.$/bbl)[1]	**(5.45)**	(5.89)	(1.14)	(2.89)	(2.26)	(3.60)	(3.09)	(3.02)
Foreign exchange								
U.S.$ to Cdn$	**1.2911**	1.2651	1.2717	1.2524	1.3447	1.3230	1.3339	1.3051
Bonterra average realized oil price (Cdn$/bbl)	**76.51**	67.78	65.16	53.48	58.27	60.63	58.02	51.80
Natural gas								
AECO (Cdn$/mcf)	**1.18**	2.07	1.68	1.45	2.77	2.68	3.08	2.31
Bonterra average realized gas price (Cdn$/mcf)	**1.16**	2.24	1.90	1.81	3.03	2.97	3.32	2.47

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

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

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

WTI benchmark pricing which has been steadily increasing from the low of $30.62 US per bbl in February of 2016, continued to increase in the first half of 2018, and is currently trading around $70.00 US per barrel. This price increase has been attributed to reductions in global crude oil inventories and increased global demand. In June OPEC agreed to ease restrictions that were placed on its members production in 2016. This was done to offset anticipated reductions in production from Venezuela, and Iran. Globally, supply and demand are expected to remain tight through the second half of 2018.

In June of 2018, Syncrude experienced a full plant outage taking upwards of 300,000 barrels per day of production off line in Western Canada. This has helped to ease local transportation and storage bottlenecks and as a result, realized differentials for Western Canadian crude have been slightly better than forecast. Recent political and regulatory events should have a positive impact on two pipeline projects for Western Canadian crude. It's anticipated that construction will commence on the TransMountain pipeline expansion early in 2019 and the final segment of Enbridge's Line 3 expansion in the 2nd half of 2018. Expanding export capacity by increasing capacity on existing lines or completion of any of the pipeline expansion projects may have a positive effect on the movement and pricing of Canadian barrels.

The AECO benchmark price for natural gas declined in the second quarter of 2018. This was mainly due to lower intra provincial demand as heating loads decreased with the transition into spring, as well as reduced pipeline capability as TransCanada Pipeline implemented capacity restrictions as necessary to commence annual maintenance activities. Western Canadian supply continues to hover near historically high levels. Should this continue throughout 2018, pipeline infrastructure will struggle to handle the existing and incremental volumes. Increasing demand for heating and electricity should result in better pricing moving into fall and winter.

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

Annualized sensitivity analysis on cash flow, as estimated for 2018 [1]

Impact on cash flow	Change ($)	$000s	$ per share [2]
Realized crude oil price ($/bbl)	1.00	2,673	0.08
Realized natural gas price ($/mcf)	0.10	939	0.03
U.S.$ to Canadian $ exchange rate	0.01	1,443	0.04

(1) This analysis uses current royalty rates, annualized estimated average production of 13,200 BOE per day and no changes in working capital
(2) Based on annualized basic weighted average shares outstanding of 33,310,796

Business Overview, Strategy and Key Performance Drivers

Bonterra's second quarter results improved compared to the first quarter of 2018 primarily due to an increase in production volumes from its high quality, oil-weighted assets in the Pembina Cardium area of Alberta. The increase in production was due to the Company's accelerated capital and well maintenance programs during Q1 2018. During the first six months of 2018, fourteen of the eighteen operated wells were placed on production in the first quarter, along with reactivating down wells by employing four service rigs from the usual two service rigs during the same period. Having a full quarter of production from the wells drilled in the first quarter and previous down wells, resulted in Bonterra's production increasing by 895 BOE per day in Q2 to 13,946 BOE per day from Q1 2018.

During Q1 2018 the Company accelerated the capital program and well maintenance programs to maximize production before lease accessibility decreased due to spring breakup. As a result, the Company has spent $55,138,000 in the first six months of 2018 of its $75,000,000 annual capital budget with approximately $36,200,000 spent in the first quarter. Approximately $47,564,000 was spent to drill 20 gross operated (19.9 net) wells and complete, equip and tie-in 18 gross (17.9 net) wells, of which two gross (2.0 net) were placed on production in July. The remaining $7,574,000 was incurred on infrastructure and non-operated wells. Bonterra plans to spend most of its remaining annual capital budget in the third quarter. The Company will review its annual capital guidance and consider if additional capital will be spent in the fourth quarter, beyond the $75,000,000 budgeted.

In the second quarter to protect the cashflow generated by the capital and maintenance programs, the Company entered into physical delivery sales contracts for a portion of its production. These contracts provided an average minimum WTI base price for oil of $57.51 US per bbl on 2,500 bbl per day and an average minimum base price for natural gas of $0.80 per GJ on 5,000 GJ per day (approximately 30 percent of the oil production and 20 percent of the gas production respectively). The Company currently has no physical delivery sales contracts in place.

On April 30, 2018 the Company renewed its bank facility at $380,000,000 under similar terms and conditions. The bank facility is comprised of a $330,000,000 syndicated revolving credit facility, and a $50,000,000 non-syndicated revolving credit facility. The revolving period on the bank facility expires on April 29, 2019, with a maturity date of April 30, 2020, subject to an annual review. As at June 30, 2018, Bonterra had $303,413,000 (June 30, 2017 - $341,070,000) drawn on the $380,000,000 bank facility. These credit facilities provide the Company with sufficient liquidity and financial flexibility to execute its business plan. With the additional cash flow from the new wells added, primarily in the first quarter, the Company was able to reduce net debt by $8,142,000 in the second quarter compared to the first quarter of 2018.

The Company averaged 13,501 BOE per day for the first six months of 2018. Although Bonterra has done extensive work to optimize production by bringing new wells on production and reactivating down wells early in the year, the Company expects Q3 2018 production to be less than Q2 2018 production of 13,946 BOE per day due to major facility turnarounds required at two of the larger oil batteries and a wholly owned gas plant in the month of July for up to seven days. However, the Company maintains its annual production guidance of 13,200 to 13,500 BOE per day.

Bonterra's successful operations are dependent upon several factors including, but not limited to: commodity prices, efficient management of capital spending, 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						Six months ended			
	June 30, 2018		March 31, 2018		June 30, 2017		**June 30, 2018**		June 30, 2017	
	Gross[1]	**Net[2]**	Gross[1]	Net[2]	Gross[1]	Net[2]	**Gross[1]**	**Net[2]**	Gross[1]	Net[2]
Crude oil horizontal-operated	**5**	**5.0**	15	14.9	8	8.0	**20**	**19.9**	21	19.5
Crude oil horizontal-non-operated	**-**	**-**	2	0.2	4	1.1	**2**	**0.2**	6	1.5
Total	**5**	**5.0**	17	15.1	12	9.1	**22**	**20.1**	27	21.0
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 six months of 2018, the Company drilled 20 gross (19.9 net) wells, of which 18 gross (17.9 net) wells were completed, equipped, tied-in and placed on production. The remaining two wells were brought on production in July 2018.

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

Production

	Three months ended			Six months ended	
	June 30, 2018	March 31, 2018	June 30, 2017	**June 30, 2018**	June 30, 2017
Crude oil (barrels per day)	**8,743**	8,034	8,287	**8,391**	7,912
NGLs (barrels per day)	**984**	900	843	**942**	828
Natural gas (MCF per day)	**25,317**	24,701	24,138	**25,011**	23,196
Average BOE per day	**13,946**	13,051	13,153	**13,501**	12,606

The second quarter yielded a very positive impact on production volumes for the first six months of 2018 compared to the first six months of 2017 and Q2 2018 over Q1 2018. With increased crude oil prices, Bonterra placed a strong focus to bringing new wells on production early in the first six months of the year before spring breakup. As a result, the Company placed eighteen (17.9 net) wells on production, of which fourteen (13.9 net) wells were on production in Q1 2018 compared to twenty-one (18.1 net) wells, of which only five (3.7 net) wells were on production in Q1 2017. The Company also reactivated more down wells in the first quarter of 2018 compared to Q1 2017.

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, 2018**	March 31, 2018	June 30, 2017	**June 30, 2018**	June 30, 2017
Production volumes (BOE)	**1,269,114**	1,174,598	1,196,897	**2,443,713**	2,281,708
Gross production revenue	**53.15**	48.63	44.03	**50.98**	44.71
Royalties	**(5.45)**	(4.92)	(3.06)	**(5.19)**	(3.10)
Production costs	**(13.01)**	(14.49)	(12.27)	**(13.73)**	(12.85)
Field netback	**34.69**	29.22	28.70	**32.06**	28.76
General and administrative	**(1.67)**	(1.73)	(1.60)	**(1.70)**	(1.77)
Interest and other	**(2.96)**	(3.68)	(3.26)	**(3.31)**	(3.44)
Cash netback	**30.06**	23.81	23.84	**27.05**	23.55

Cash netbacks for the first six months of 2018 compared to the same period a year ago increased by $3.50 per BOE. This is primarily due to the increase in commodity prices being partially offset by an increase in royalty rates for the two percent gross overriding royalty (GORR) on the Pembina Cardium pool assets effective January 1, 2018. Production costs were higher in Q1 2018 due to adding additional service rigs to repair non-producing wells before spring breakup and to take advantage of the increase in the price of crude oil.

Oil and Gas Sales

	Three months ended			Six months ended	
	June 30, 2018	March 31, 2018	June 30, 2017	**June 30, 2018**	June 30, 2017
Revenue - oil and gas sales ($ 000s)					
Crude oil	**60,869**	49,009	44,005	**109,879**	85,314
NGL	**3,912**	3,135	2,081	**7,047**	4,281
Natural gas	**2,677**	4,980	6,609	**7,657**	12,430
	67,458	57,124	52,695	**124,583**	102,025
Average realized prices:					
Crude oil ($ per barrel)	**76.51**	67.78	58.27	**72.35**	59.39
NGLs ($ per barrel)	**43.69**	38.70	27.48	**41.32**	29.19
Natural gas ($ per MCF)	**1.16**	2.24	3.03	**1.69**	3.00
Average ($ per BOE)	**53.15**	48.63	44.03	**50.98**	44.71
Average BOE per day	**13,946**	13,051	13,153	**13,501**	12,606

Revenue from oil and gas sales for the first six months of 2018 increased by $22,558,000, or 22 percent, compared to the same period a year ago. The increase in oil and gas sales was primarily driven by higher production and commodity prices for oil and NGLs. The quarter over quarter increase in oil and gas sales was primarily due to increased production volumes and commodity prices for oil and NGLs.

The Company's product split on a revenue basis for 2018 is approximately 94 percent weighted towards crude oil and NGLs.

Royalties

	Three months ended			Six months ended	
	June 30,	March 31,	June 30,	**June 30,**	June 30,
($ 000s)	**2018**	2018	2017	**2018**	2017
Crown royalties	**4,090**	3,807	2,611	**7,897**	4,966
Freehold, gross overriding and other royalties	**2,820**	1,974	1,048	**4,795**	2,100
Total royalties	**6,910**	5,781	3,659	**12,692**	7,066
Crown royalties - percentage of revenue	**6.1**	6.7	5.0	**6.3**	4.9
Freehold, gross overriding and other royalties - percentage of revenue	**4.2**	3.5	2.0	**3.8**	2.1
Royalties - percentage of revenue	**10.3**	10.2	7.0	**10.1**	7.0
Royalties $ per BOE	**5.45**	4.92	3.06	**5.19**	3.10

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 $2.09 per BOE for the first half of 2018 compared to the same period for 2017. The increase in royalties is primarily due to the two percent GORR transaction on the Pembina Cardium pool assets along with an overall increase in commodity prices. Quarter over quarter increase in royalties of $0.53 per BOE was due to an increase in crude oil and NGL prices.

Production Costs

	Three months ended			Six months ended	
	June 30,	March 31,	June 30,	**June 30,**	June 30,
($ 000s except $ per BOE)	**2018**	2018	2017	**2018**	2017
Production costs	**16,517**	17,026	14,694	**33,543**	29,319
$ per BOE	**13.01**	14.49	12.27	**13.73**	12.85

Production costs for the first six months of 2018 increased by $0.88 per BOE compared to the first six months of 2017, primarily due to employing four service rigs instead of two during the first quarter. Adding two additional service rigs allowed Bonterra to reactivate more shut-in wells, to take advantage of higher commodity prices and to avoid pending road bans in the spring.

Quarter over quarter production costs decreased by $1.48 due to a reduction of service rig costs and to additional production volumes from wells that were placed on production starting in late March.

Other Income

	Three months ended			Six months ended	
	June 30,	March 31,	June 30,	**June 30,**	June 30,
($ 000s)	**2018**	2018	2017	**2018**	2017
Investment income	**(72)**	99	16	**27**	23
Administrative income	**42**	52	56	**94**	104
Deferred consideration	**383**	345	-	**728**	-
	353	496	72	**849**	127

In the fourth quarter of 2017, Bonterra sold a two percent overriding royalty interest on the total production from the Company's Pembina Cardium pool with an effective date of January 1, 2018. Consideration received on disposition was $56,747,000, comprised of $52,000,000 in cash and property, plant and equipment valued at $4,747,000. The result of this disposition was a gain on disposal of $4,226,000 and deferred consideration of $16,064,000, of which $728,000 was recognized in the first half of 2018.

The market value of the investments held by the Company at June 30, 2018 was $608,000 (June 30, 2017 - $1,078,000). The carrying value decreased due to a reduction in the investments carrying value. There were no dispositions for the six months ended June 30, 2018 or 2017. Dispositions that result in a gain or loss on sale are recorded as an equity transfer between accumulated other comprehensive income and retained earnings.

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

General and Administration (G&A) Expense

	Three months ended			Six months ended	
	June 30,	March 31,	June 30,	**June 30,**	June 30,
($ 000s except $ per BOE)	**2018**	2018	2017	**2018**	2017
Employee compensation expense	**1,370**	1,365	1,058	**2,735**	2,569
Office and administrative expense	**747**	665	860	**1,412**	1,466
Total G&A expense	**2,117**	2,030	1,918	**4,147**	4,035
$ per BOE	**1.67**	1.73	1.60	**1.70**	1.77

The increase of $166,000 in employee compensation expense for the first six months of 2018 compared to the same period in 2017 is primarily due to a higher bonus accrual from increased earnings before income taxes. The Company has a bonus plan in which the bonus pool consists of a range between 2.5 percent to 3.5 percent of earnings before income taxes. The Company firmly believes that tying employee compensation (including the use of stock options) to corporate performance clearly aligns the interests of the employees with those of shareholders.

Finance Costs

	Three months ended			Six months ended	
	June 30,	March 31,	June 30,	**June 30,**	June 30,
($ 000s except $ per BOE)	**2018**	2018	2017	**2018**	2017
Interest on long-term debt	**3,504**	4,260	3,759	**7,764**	7,536
Other interest	**217**	219	217	**436**	433
Interest expense	**3,721**	4,479	3,976	**8,200**	7,969
$ per BOE	**2.93**	3.81	3.32	**3.36**	3.49
Unwinding of the discounted value of decommissioning liabilities	**761**	757	748	**1,518**	1,489
Total finance costs	**4,482**	5,236	4,724	**9,718**	9,458

Interest on long-term debt increased in the first six months of 2018 compared to the same period of 2017 despite the Company carrying a lower average long-term debt by $38,000,000. The Company realized higher interest rates in 2018 based on a trailing net debt to EBITDA ratio from Q3 2017. Interest rates on long-term debt decreased in the second quarter of 2018 with a much lower Q4 2017 net debt to EBITDA ratio that came into effect. Interest rates for the current quarter are determined based on the trailing quarter by the ratio of total debt (excluding accounts payable and accrued liabilities) to EBITDA (defined as net income excluding finance costs, provision for current and deferred taxes, depletion and depreciation, share-option compensation, gain or loss on sale of assets and impairment of assets) multiplied by four.

Other interest relates to amounts paid to a related party (see related party transactions) and a $10,000,000 subordinated promissory note from a private investor. For more information about the subordinated promissory note, refer to Note 5 of the June 30, 2018 condensed financial statements.

A one percent increase (decrease) in the Canadian prime rate would decrease (increase) both annual net earnings and comprehensive income by approximately $2,303,000.

Share-Option Compensation

($ 000s)	Three months ended June 30, 2018	Three months ended March 31, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Share-option compensation	**766**	742	1,239	**1,508**	2,878

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 $1,370,000 from a year ago as the majority of the options issued in 2016, that were fully amortized in 2017 had a higher share price volatility than the options issued in the fourth quarter of 2017; which are amortizing in 2018.

Based on the outstanding options as of June 30, 2018, the Company has an unamortized expense of $2,061,000, of which $1,059,000 will be recorded for the remainder of 2018, $982,000 for 2019 and $20,000 thereafter. For more information about options issued and outstanding, refer to Note 8 of the June 30, 2018 condensed financial statements.

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

($ 000s)	Three months ended June 30, 2018	Three months ended March 31, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Depletion and depreciation	**24,526**	21,450	22,535	**45,976**	44,078
Exploration and evaluation	**-**	291	-	**291**	-

The provision for depletion and depreciation increased for the first six months of 2018 compared to the first six months of 2017 due to increased production volumes and capital. Quarter over quarter increase in depletion and depreciation is also due to an increase in production volumes.

Exploration and evaluation expense related to expired leases.

There were no impairment provisions recorded for the three and six months ended June 30, 2018 and 2017.

Taxes

The Company recorded income tax expense of $5,237,000 for the first six months of 2018 (2017 – $1,865,000). The increase in income tax expense is due to an increase in net earnings before income taxes. Included in current income tax expense is $521,000 (2017 - $12,000) of provincial income taxes that was recognized and included in accounts payable and accrued liabilities for the six months ended June 30, 2018.

For additional information regarding income taxes, see Note 7 of the June 30, 2018 condensed financial statements.

Net Earnings

($ 000s except $ per share)	Three months ended June 30, 2018	Three months ended March 31, 2018	Three months ended June 30, 2017	Six months ended June 30, 2018	Six months ended June 30, 2017
Net earnings	**8,925**	3,395	2,978	**12,320**	3,453
$ per share - basic	**0.27**	0.10	0.09	**0.37**	0.10
$ per share - diluted	**0.27**	0.10	0.09	**0.37**	0.10

Net earnings for the first six months of 2018 increased by $8,867,000 compared to the first six months of 2017. The increase in net earnings was mainly due to increased commodity prices for oil and NGLs and production volumes. The increase in net earnings was partially offset by an increase in royalties, production costs and income tax expense.

The quarter over quarter increase in net earnings was mainly due to an increase in oil and gas sales and a decrease in production costs, which was partially offset by an increase in depletion and depreciation and income tax expense.

Other Comprehensive Income (Loss)

Other comprehensive income for 2018 consists of an unrealized loss before tax on investments (including investment in a related party) of $142,000 relating to a decrease in the investments' fair value (June 30, 2017 – unrealized loss of $543,000). Realized gains decrease accumulated other comprehensive income as these gains are transferred to retained earnings. Other comprehensive income varies from net earnings by unrealized changes in the fair value of Bonterra's holdings of investments including the investment in a related party, net of tax.

Cash Flow from Operations

	Three months ended			Six months ended	
($ 000s except $ per share)	**June 30, 2018**	March 31, 2018	June 30, 2017	**June 30, 2018**	June 30, 2017
Cash flow from operations	**31,908**	29,877	27,370	**61,785**	51,910
$ per share - basic	**0.96**	0.90	0.82	**1.85**	1.56
$ per share - diluted	**0.96**	0.90	0.82	**1.85**	1.56

In the first half of 2018, cash flow from operations increased by $9,875,000 compared to the same period a year ago. This was primarily due to an increase in revenue from oil and gas sales. The increase in cash flow was partially offset by an increase in royalties and production costs.

The quarter over quarter increase in cash flow of $2,031,000 is primarily due to an increase in revenue from oil and gas sales, which was partially offset by an increase in royalties and a decrease in non-cash working capital.

Related Party Transactions

Bonterra holds 1,034,523 (December 31, 2017 – 1,034,523) common shares in Pine Cliff Energy Ltd. ("Pine Cliff") which represents less than one percent ownership in Pine Cliff's outstanding common shares. Pine Cliff's common shares had a fair market value as of June 30, 2018 of $367,000 (December 31, 2017 of $476,000). The Company provides executive and marketing services for Pine Cliff. All services that were performed were charged at estimated fair value. As at June 30, 2018, the Company had an account receivable from Pine Cliff of $31,000 (December 31, 2017 – $36,000).

As at June 30, 2018, the Company's CEO, Chairman of the Board and a major shareholder has loaned the Company $12,000,000 (December 31, 2017 - $12,000,000). The loan bears interest at Canadian chartered bank prime less 5/8th of a percent and has no set repayment terms but is payable on demand. Security under the debenture is over all of the Company's assets and is subordinated to any and all claims in favour of the syndicate of senior lenders providing credit facilities to the Company. The Company's bank agreement requires that the above loan can only be repaid should the Company have sufficient available borrowing limits under the Company's credit facility. Interest paid on this loan for the first six months of 2018 was $167,000 (June 30, 2017 - $123,000). 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 June 30, 2018 was 2.9 to 1 times (versus 3.1 to 1 times at December 31, 2017). The reduction in net debt to cash flow ratio is primarily due to an increase in cash flow that was partially offset by an increase in net debt from spending approximately half of the

Company's $75,000,000 capital budget in the first quarter of 2018. The Company incurred an $8,142,000 reduction in net debt in the second quarter due to increased cash flow from new wells and less capital spent compared to the first quarter. The Company's primary focus is to manage its bank debt during a period of volatile commodity prices. The Company will continue to assess its dividend and capital expenditures compared to cash flow from operations on a quarterly basis.

Working Capital Deficiency and Net debt

($ 000s)	**June 30, 2018**	March 31, 2018	December 31, 2017	June 30, 2017
Working capital deficiency	**27,069**	46,630	27,790	29,759
Long-term bank debt	**303,413**	291,994	292,212	341,070
Net Debt	**330,482**	338,624	320,002	370,829

The Company has sufficient availability on its credit facility to repay both the related party loan and the subordinated promissory note if required. During each quarter, the Company manages net debt 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 June 30, 2018 decreased by $40,347,000 from June 30, 2017 primarily due to the $52,000,000 received for the GORR transaction in the fourth quarter of 2017 and increased cash flow from higher commodity prices partially offset by higher capital spending in the first quarter. Quarter over quarter net debt decreased by $8,142,000 due to increased cash flow from increased production and commodity prices and less capital spending compared to Q1 2018.

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 June 30, 2018 is $22,000,000 million of debt relating to the subordinated promissory note and the amount due to a related party.

Financial Risk Management

The Company has entered into physical delivery sales contracts to manage commodity risk. These contracts are considered normal sales contracts and are not recorded at fair value in the financial statements. For more information on physical delivery contracts in place see Note 10 of the June 30, 2018 condensed financial statements.

Capital Expenditures

During the six months ended June 30, 2018, the Company incurred capital expenditures of $55,138,000 (June 30, 2017 - $49,545,000). The costs relate to drilling 20 gross (19.9 net) wells with related infrastructure costs, of which 18 gross (17.9 net) wells were completed, equipped, tied-in and placed on production. The remaining two wells were brought on production in July of 2018. In addition, two gross (0.2 net) non-operated well was drilled, completed, equipped and on production during the first six months of 2018.

Liability Management Ratio ("LMR") Update

In the first six months of 2018, 94.5 percent of the Company's production is from the province of Alberta. The Company currently has an LMR rating of 2.10 in Alberta and does not expect that with its current LMR there will be any regulatory impediments to completing future potential acquisitions.

Long-term Debt

Long-term debt represents the outstanding draws from the Company's bank facility as described in the notes to the Company's audited annual financial statements. As of June 30, 2018, the Company has a bank facility with a limit of $380,000,000 (December 31, 2017 - $380,000,000) that is comprised of a $330,000,000 syndicated revolving credit facility and a $50,000,000 non-syndicated revolving credit facility. Amounts drawn under this bank facility at June 30, 2018 totaled $303,413,000 (December 31, 2017 - $292,212,000). The interest rates for the six months ended June 30, 2018 on the Company's Canadian prime rate loan and Banker's Acceptances are between four to six percent. The loan is revolving to April 29, 2019 with a maturity date of April 30, 2020, subject to annual review. The credit facilities have no fixed terms of repayment.

The available lending limits of credit facilities are reviewed semi-annually on or before April 30 and October 31 each year based mainly on the lender's assessment of the Company's reserves, future commodity prices and costs.

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 June 30, 2018 condensed financial statements.

Shareholders' Equity

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

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

Issued and fully paid - common shares	**Number**	**Amount ($ 000s)**
Balance, June 30, 2018 and December 31, 2017	**33,310,796**	**763,977**

The Company provides a stock option plan for its directors, officers, employees and consultants. Under the plan, the Company may grant options for up to 3,331,080 (December 31, 2017 – 3,331,080) common shares. The exercise price of each option granted will not be lower than the market price of the common shares on the date of grant and the option's maximum term is five years. For additional information regarding options outstanding, see Note 8 of the June 30, 2018 condensed financial statements.

Dividend Policy

For the three months ended June 30, 2018, the Company declared and paid dividends of $9,993,000 ($0.30 per share) (June 30, 2017 – $9,993,000) ($0.30 per share). For the six months ended June 30, 2018 the Company declared and paid dividends of 19,986,000 ($0.60 per share) (June 30, 2017 - $19,985,000 ($0.60 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 32 percent for the six months ended June 30, 2018 (38 percent for the six months ended June 30, 2017).

Bonterra's dividends to its shareholders are funded by cash flow from operating activities with the remaining cash flow directed to capital spending and debt repayment. To the extent that the excess cash flow from operations after dividends is not sufficient to cover capital spending, the shortfall is funded by drawdowns on Bonterra's bank facility. Bonterra intends to provide dividends to shareholders that are sustainable by the Company with consideration to its liquidity and long-term operational strategy. The level of dividends is highly dependent upon cash flow generated from operations, which may fluctuate significantly due to changes in financial and operational performance, commodity prices, interest and exchange rates and many other factors; as such future dividends cannot be assured.

Quarterly Financial Information

For the periods ended ($ 000s except $ per share)	**2018 Q2**	2018 Q1	2017 Q4	2017 Q3	2017 Q2	2017 Q1
Revenue - oil and gas sales	**67,458**	57,124	54,192	46,349	52,695	49,330
Cash flow from operations	**31,908**	29,877	26,472	25,491	27,370	24,540
Net earnings (loss)	**8,925**	3,395	2,096	(3,043)	2,978	475
Per share - basic	**0.27**	0.10	0.06	(0.09)	0.09	0.01
Per share - diluted	**0.27**	0.10	0.06	(0.09)	0.09	0.01

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

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

Critical Accounting Estimates

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

Forward-Looking Information

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

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

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

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

Internal Controls Over Financial Reporting

The Company is required to comply with National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings." The certification of interim filings for the interim period ended June 30, 2018 requires that Bonterra disclose in the interim MD&A any changes in the Company's internal control over financial reporting that occurred during the period that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Bonterra confirms that no such changes were made to its internal controls over financial reporting during the six months ended June 30, 2018.

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

Management's Responsibility for Financial Statements

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

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

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

CONDENSED STATEMENT OF FINANCIAL POSITION

As at (unaudited) ($ 000s)	Note	June 30, 2018	December 31, 2017
Assets			
Current			
Accounts receivable		**21,742**	20,536
Crude oil inventory		**647**	794
Prepaid expenses		**6,193**	2,535
Investments		**241**	274
		28,823	24,139
Investment in related party		**367**	476
Exploration and evaluation assets		**3,886**	4,217
Property, plant and equipment	3	**1,012,781**	995,075
Investment tax credit receivable	7	**8,834**	8,834
Goodwill		**92,810**	92,810
		1,147,501	1,125,551
Liabilities			
Current			
Accounts payable and accrued liabilities		**32,437**	26,130
Due to related party	4	**12,000**	12,000
Subordinated promissory note	5	**10,000**	12,500
Deferred consideration		**1,455**	1,299
		55,892	51,929
Bank debt	6	**303,413**	292,212
Deferred consideration		**13,882**	14,765
Decommissioning liabilities		**135,885**	126,631
Deferred tax liability	7	**134,450**	129,754
		643,522	615,291
Subsequent events	11		
Shareholders' equity			
Share capital	8	**763,977**	763,977
Contributed surplus		**27,041**	25,533
Accumulated other comprehensive loss		**(462)**	(339)
Retained earnings (deficit)		**(286,577)**	(278,911)
		503,979	510,260
		1,147,501	1,125,551

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the periods ended June 30 (unaudited)		Three Months		Six Months	
($ 000s, except $ per share)	Note	**2018**	2017	**2018**	2017
Revenue					
Oil and gas sales, net of royalties	9	**60,548**	49,036	**111,891**	94,959
Other income (loss)		**(30)**	72	**121**	127
Deferred consideration		**383**	-	**728**	-
		60,901	49,108	**112,740**	95,086
Expenses					
Production		**16,517**	14,694	**33,543**	29,319
Office and administration		**747**	860	**1,412**	1,466
Employee compensation		**1,370**	1,058	**2,735**	2,569
Finance costs		**4,482**	4,724	**9,718**	9,458
Share-option compensation		**766**	1,239	**1,508**	2,878
Depletion and depreciation	3	**24,526**	22,535	**45,976**	44,078
Exploration and evaluation		**-**	-	**291**	-
		48,408	45,110	**95,183**	89,768
Earnings before income taxes		**12,493**	3,998	**17,557**	5,318
Taxes					
Current income tax expense	7	**521**	12	**521**	12
Deferred income tax expense	7	**3,047**	1,008	**4,716**	1,853
		3,568	1,020	**5,237**	1,865
Net earnings for the period		**8,925**	2,978	**12,320**	3,453
Other comprehensive income (loss)					
Unrealized gain (loss) on investments		**48**	(142)	**(142)**	(543)
Deferred taxes on unrealized gain (loss) on investments		**(7)**	20	**19**	74
Other comprehensive income (loss) for the period		**41**	(122)	**(123)**	(469)
Total comprehensive income for the period		**8,966**	2,856	**12,197**	2,984
Net earnings per share - basic and diluted	8	**0.27**	0.09	**0.37**	0.10
Comprehensive income per share - basic and diluted	8	**0.27**	0.09	**0.37**	0.09

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	**2018**	2017	**2018**	2017
Operating activities					
Net earnings		**8,925**	2,978	**12,320**	3,453
Items not affecting cash					
Deferred income taxes		**3,047**	1,008	**4,716**	1,853
Deferred consideration		**(383)**	-	**(728)**	-
Share-option compensation		**766**	1,239	**1,508**	2,878
Depletion and depreciation		**24,526**	22,535	**45,976**	44,078
Exploration and evaluation expenditures		**-**	-	**291**	-
Unwinding of the discount on decommissioning liabilities		**761**	748	**1,518**	1,489
Investment income		**(14)**	(16)	**(27)**	(23)
Interest expense		**3,721**	3,976	**8,200**	7,969
Change in non-cash working capital accounts:					
Accounts receivable		**60**	1,365	**(2,189)**	(474)
Crude oil inventory		**(18)**	(10)	**48**	165
Prepaid expenses		**(3,867)**	(3,035)	**(3,658)**	(2,559)
Accounts payable and accrued liabilities		**(1,436)**	801	**2,679**	1,641
Decommissioning expenditures		**(459)**	(243)	**(669)**	(591)
Interest paid		**(3,721)**	(3,976)	**(8,200)**	(7,969)
Cash provided by operating activities		**31,908**	27,370	**61,785**	51,910
Financing activities					
Increase of bank debt		**11,419**	10,952	**11,201**	11,866
Subordinated promissory note		**-**	-	**(2,500)**	-
Stock option proceeds		**-**	-	**-**	143
Dividends		**(9,993)**	(9,993)	**(19,986)**	(19,985)
Cash provided by (used in) financing activities		**1,426**	959	**(11,285)**	(7,976)
Investing activities					
Investment income received		**14**	16	**27**	23
Property, plant and equipment expenditures	3	**(18,970)**	(19,416)	**(55,138)**	(49,545)
Change in non-cash working capital accounts:					
Accounts payable and accrued liabilities		**(14,449)**	(8,071)	**3,628**	5,343
Accounts receivable		**71**	(858)	**983**	245
Cash used in investing activities		**(33,334)**	(28,329)	**(50,500)**	(43,934)
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 8)	**Share Capital (Note 8)**	**Contributed surplus [(1)]**	**Accumulated other Comprehensive income (loss) [(2)]**	**Retained earnings (deficit)**	**Total shareholder's equity**
January 1, 2017	33,302,435	763,788	21,068	414	(241,446)	543,824
Share-option compensation			2,878			2,878
Exercise of options	8,361	143				143
Transfer to share capital on exercise of options		46	(46)			-
Comprehensive income (loss)				(469)	3,453	2,984
Dividends					(19,985)	(19,985)
June 30, 2017	33,310,796	763,977	23,900	(55)	(257,978)	529,844
Share-option compensation			1,633			1,633
Comprehensive income (loss)				(284)	(947)	(1,231)
Dividends					(19,986)	(19,986)
December 31, 2017	33,310,796	763,977	25,533	(339)	(278,911)	510,260
Share-option compensation			1,508			1,508
Comprehensive income (loss)				(123)	12,320	12,197
Dividends					(19,986)	(19,986)
June 30, 2018	33,310,796	763,977	27,041	(462)	(286,577)	503,979

(1) All amounts reported in Contributed Surplus relate 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 June 30, 2018 and December 31, 2017 and for the three and six months ended June 30, 2018 and June 30, 2017 (unaudited).

1. NATURE OF BUSINESS AND SEGMENT INFORMATION

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

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

The financial statements were authorized for issue by the Company's Board of Directors on August 8, 2018.

2. BASIS OF PREPARATION

a) Statement of Compliance

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

The accounting policies and method of computation followed in the preparation of the condensed financial statements are the same as those followed in the preparation of Bonterra's 2017 audited annual financial statements, except for as denoted below. These condensed financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the 2017 audited annual financial statements, which has been prepared in accordance with International Financial Reporting Standards (IFRS).

b) Adopted Accounting Pronouncements

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

Bonterra used the modified retrospective approach to adopt the standard. Under this transitional provision, the cumulative effect of initially applying IFRS 15 is recognized on the date of initial application as an adjustment to retained earnings. No adjustment to retained earnings was required upon adoption of IFRS 15. The Company has reviewed its various revenue streams and underlying contracts with customers, and as result of this review, the adoptions of IFRS 15 did not have a material impact on the Company's statements of comprehensive income and financial position. However, the Company has expanded the disclosures in the notes to its financial statements as prescribed by IFRS 15, including disclosing the Company's disaggregated revenue streams by product type in Note 9. In addition, as a result of this adoption, the Company has revised the description of its accounting policy for revenue recognition as follows:

Revenue Recognition

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

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

c) Future Accounting Pronouncements

In January 2016, the IASB issued IFRS 16 Leases, which replaces IAS 17 Leases. IFRS 16 requires the recognition of lease assets and liabilities on the balance sheet for most leases, where the entity is acting as a lessee. For lessees applying IFRS 16, the dual classification model of leases as either operating leases or finance leases no longer exists, effectively treating all leases as finance leases. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the balance sheet recognition requirements and may continue to be treated as operating leases. Lessors will continue with the dual classification model for leases and the accounting for lessors remains virtually unchanged.

The standard will come into effect for annual periods beginning on or after January 1, 2019. IFRS 16 is required to be adopted either retrospectively or using a modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively.

IFRS 16 will be applied by Bonterra on January 1, 2019. The Company is currently engaging and educating stakeholders and is reviewing corporate processes to ensure contract completeness when identifying leases. Identifying, gathering and analyzing contracts impacted by the adoption of the new standard is in progress. The Company is currently assessing the impact of the standard on its Financial Statements.

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, 2017	1,318,063	324,729	2,181	1,644,973
Additions	45,739	9,344	55	55,138
Transfers from exploration and evaluation assets	40	-	-	40
Adjustment to decommissioning liabilities [1]	8,405	-	-	8,405
Balance at June 30, 2018	**1,372,247**	**334,073**	**2,236**	**1,708,556**

Accumulated depletion and depreciation ($ 000s)	**Oil and gas properties**	**Production facilities**	**Furniture fixtures & other equipment**	**Total property plant & equipment**
Balance at December 31, 2017	(529,434)	(118,757)	(1,707)	(649,898)
Depletion and depreciation	(38,179)	(7,757)	(40)	(45,976)
Other	99	-	-	99
Balance at June 30, 2018	**(567,514)**	**(126,514)**	**(1,747)**	**(695,775)**

Carrying amounts as at: ($ 000s)				
December 31, 2017	788,629	205,972	474	995,075
June 30, 2018	**804,733**	**207,559**	**489**	**1,012,781**

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

There were no impairment losses or reversals recorded in the statement of comprehensive income for the six months ended June 30, 2018 and 2017.

4. TRANSACTIONS WITH RELATED PARTIES

As at June 30, 2018, the Company's CEO, Chairman of the Board and a major shareholder has loaned the Company $12,000,000 (December 31, 2017 - $12,000,000). The loan bears interest at Canadian chartered bank prime less 5/8th of a percent and has no set repayment terms but is payable on demand. Security under the debenture is over all of the Company's assets and is subordinated to any and all claims in favour of the syndicate of senior lenders providing credit facilities to the Company. The Company's bank agreement requires that the above loan can only be repaid should the Company have sufficient available borrowing limits under the Company's credit facility. Interest paid on this loan during the first six months of 2018 was $167,000 (June 30, 2017 - $123,000).

The Company provides executive and marketing services for Pine Cliff Energy Ltd. (Pine Cliff). All services that were performed were charged at estimated fair value. As at June 30, 2018, the Company had an account receivable from Pine Cliff of $31,000 (December 31, 2017 – $36,000).

5. SUBORDINATED PROMISSORY NOTE

As at June 30, 2018, Bonterra had $10,000,000 (December 31, 2017 - $12,500,000) outstanding on a subordinated note to a private investor. The terms of the subordinated promissory note are that it bears interest at five percent and is repayable after thirty days' written notice by either party. Security consists of a floating demand debenture over all of the Company's assets and is subordinated to any and all claims in favor of the syndicate of senior lenders providing credit facilities to the Company. Interest paid on the subordinated promissory note during the first six months was $262,000 (June 30, 2017 - $310,000). On February 9, 2018 the Company repaid $2,500,000.

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

6. BANK DEBT

As at June 30, 2018, the Company has a bank facility of $380,000,000 (December 31, 2017 - $380,000,000). Comprised of a $330,000,000 syndicated revolving credit facility and a $50,000,000 non-syndicated revolving credit facility. The amount drawn under the bank facility at June 30, 2018 was $303,413,000 (December 31, 2017 - $292,212,000). The amounts borrowed under the bank facility bears interest at a floating rate based on the applicable Canadian prime rate or Banker's Acceptance rate, plus between 0.50 percent and 3.50 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 29, 2019, with a maturity date of April 30, 2020, subject to annual review. The credit facilities have no fixed terms of repayment. The available lending limit of the bank facility is reviewed semi-annually on or before April 30 and October 31 and based on the lender's assessment of the Company's reserves, future commodity prices and costs.

The amount available for borrowing under the bank facility is reduced by outstanding letters of credit. Letters of credit totaling $900,000 were issued as at June 30, 2018 (December 31, 2017 - $900,000). Security for the bank facility consists of various floating demand debentures totaling $750,000,000 (December 31, 2017 - $750,000,000) over all of the Company's assets and a general security agreement with first ranking over all personal and real property.

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

- The Company cannot exceed $380,000,000 in consolidated debt (excluding accounts payable and accrued liabilities). As at June 30, 2018 consolidated debt is $325,413,000.
- 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 24 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 June 30, 2018, the Company is in compliance with all covenants.

7. INCOME TAXES

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

($ 000s)	Rate of Utilization (%)	Amount
Undepreciated capital costs	7-100	89,799
Share issue costs	20	53
Canadian oil and gas property expenditures	10	95,967
Canadian development expenditures	30	168,884
Canadian exploration expenditures	100	8,063
Federal income tax losses carried forward[1]	100	34,040
		396,806

[1] Federal income tax losses carried forward expire in the following years; 2036 - $33,823,000; 2037 - $217,000

The Company has $8,834,000 (December 31, 2017 - $8,834,000) of investment tax credits that expire in the following years; 2021 - $1,824,000; 2022 - $1,735,000; 2023 - $1,097,000; 2024 - $1,241,000; 2025 - $1,323,000; 2026 - $1,105,000; 2027 - $410,000; and 2035 - $99,000.

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

Included in accounts payable and accrued liabilities is $521,000 for current tax expense for provincial income taxes owing.

8. SHAREHOLDERS' EQUITY

Authorized

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

Issued and fully paid - common shares	**Number**	**Amount ($ 000s)**
Balance, June 30, 2018 and December 31, 2017	**33,310,796**	**763,977**

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

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

	Three Months		Six Months	
	June 30, 2018	June 30, 2017	**June 30, 2018**	June 30, 2017
Basic shares outstanding	**33,310,796**	33,310,796	**33,310,796**	33,308,340
Dilutive effect of share options[1]	**25,428**	733	**-**	31,720
Diluted shares outstanding	**33,336,224**	33,311,529	**33,310,796**	33,340,060

(1) The Company did not include 1,831,000 share options for the three months ended June 30, 2018 (June 30, 2017 – 2,588,000) and 2,693,000 share options for the six months ended June 30, 2018 (June 30, 2017 – 1,982,000) in the dilutive effect of share options calculations as these share options were anti-dilutive.

For the three months ended June 30, 2018, the Company declared and paid dividends of $9,993,000 ($0.30 per share) (June 30, 2017 - $9,993,000 ($0.30 per share)). For the six months ended June 30, 2018 the Company declared and paid dividends of $19,986,000 ($0.60 per share) (June 30, 2017 - $19,985,000 ($0.60 per share)).

The Company provides an equity settled option plan for its directors, officers, employees and consultants. Under the plan, the Company may grant options for up to 3,331,080 (December 31, 2017 – 3,331,080 common shares). The exercise price of each option granted cannot be lower than the market price of the common shares on the date of grant and the option's maximum term is five years.

A summary of the status of the Company's stock options as of June 30, 2018 and changes during the period ended are presented below:

	Number of options	**Weighted average exercise price**
At January 1, 2018	2,806,000	$19.48
Options forfeited	(5,000)	25.80
Options expired	(108,000)	49.64
At June 30, 2018	2,693,000	$18.26

The following table summarizes information about options outstanding and exercisable as at June 30, 2018:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable	Weighted-average exercise price
$ 14.00 - $ 20.00	1,829,000	1.8 years	$ 14.70	30,000	$ 17.15
20.01 - 30.00	856,000	0.2 years	25.75	840,000	25.78
30.01 - 35.00	8,000	0.6 years	32.00	8,000	32.00
$ 14.00 - $ 35.00	2,693,000	1.3 years	$ 18.26	878,000	$ 25.54

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 six-month period ended June 30, 2018, the Company did not grant any options.

9. OIL AND GAS SALES, NET OF ROYALTIES

	Three months		Six months	
($ 000s)	**June 30, 2018**	June 30, 2017	**June 30, 2018**	June 30, 2017
Oil and gas sales				
Crude oil	**60,869**	44,004	**109,879**	85,314
Natural gas liquids	**3,912**	2,082	**7,047**	4,281
Natural gas	**2,677**	6,609	**7,657**	12,430
	67,458	52,695	**124,583**	102,025
Less royalties:				
Crown	**(4,090)**	(2,611)	**(7,897)**	(4,966)
Freehold, gross overriding royalties and other	**(2,820)**	(1,048)	**(4,795)**	(2,100)
	(6,910)	**(3,659)**	**(12,692)**	(7,066)
Oil and gas sales, net of royalties	**60,548**	49,036	**111,891**	94,959

10. FINANCIAL RISK MANAGEMENT

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

Physical Delivery Sales Contracts

Bonterra enters into physical delivery sales contracts to manage commodity price risk. These contracts are considered normal executory sales contracts and are not recorded at fair value in the financial statements. At June 30, 2018, the Company had the following physical delivery sales contracts in place:

Product	Type of contract	Volume	Term	Contract price
Oil	Fixed price - WTI (1)	500 BBL/day	January 1 to March 31, 2018	$57.19 US/BBL
Oil	Basis Differential WTI (1)(3)	500 BBL/day	January 1 to March 31, 2018	$(2.80) US/BBL
Oil	Fixed price - WTI (1)	500 BBL/day	January 1 to June 30, 2018	$59.55 US/BBL
Oil	Costless physical oil collar - WTI (1)	1,000 BBL/day	April 1 to June 30, 2018	Floor price $57.00 US/BBL Ceiling price $71.65 US/BBL
Oil	Costless physical oil collar - WTI	1,000 BBL/day	April 1 to June 30, 2018	Floor price $57.00 US/BBL Ceiling price $71.40 US/BBL
Gas	Costless physical gas collar - AECO (4)	5,000 GJ/day	April 1 to June 30, 2018	Floor price $0.80 $Cdn/GJ Ceiling price $1.23 $Cdn/GJ

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

11. SUBSEQUENT EVENTS

Dividends

Subsequent to June 30, 2018, the Company declared the following dividends:

Date declared	Record date	$ per share	Date payable
July 3, 2018	July 16, 2018	0.10	July 31, 2018
August 1, 2018	August 15, 2018	0.10	August 31, 2018

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

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

Registrar and Transfer Agent
Odyssey Trust Company

Auditors
Deloitte LLP

Solicitors
Borden Ladner Gervais LLP

Bankers
CIBC
National Bank of Canada
The Toronto Dominion Bank
ATB Financial
Business Development Bank of Canada

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