



Your Board Recommends You

# REJECT THE HOSTILE BID

To **REJECT** simply **Do Not Tender Your Shares**



**Hostile Bid of 2 OBE shares for 1 BNE share is a take-under and significantly undervalues Bonterra**

- OBE trading at \$0.50/share
- BNE trading at \$1.68/share
- Offer represents a 40% discount

Share prices and discount above as at November 23, 2020.



**Shareholders representing >33% of Bonterra's outstanding common shares will NOT tender**



### **Dear fellow Shareholder,**

On Monday, September 21, 2020, Obsidian Energy Ltd. ("Obsidian") made an unsolicited offer (the "Hostile Bid") to acquire all of the outstanding common shares (the "Bonterra Shares") of Bonterra Energy Corp. ("Bonterra") for common shares of Obsidian at a fixed ratio of two (2) Obsidian common shares for every one (1) Bonterra common share tendered to the offer.

After thorough and thoughtful consideration of all aspects of the Hostile Bid, Bonterra's board of directors (the "Board") and the Board-appointed Special Committee UNANIMOUSLY recommended that Bonterra shareholders (the "Bonterra Shareholders") **REJECT the Hostile Bid** for a number of reasons set out in Bonterra's Directors' Circular dated October 6, 2020, available under Bonterra's profile on SEDAR [www.sedar.com](http://www.sedar.com).

### **✘ The Hostile Bid is highly opportunistic**

The Hostile Bid is timed to deprive Bonterra Shareholders of recent positive market changes and value-increasing initiatives achieved to date by Bonterra, including the Export Development Canada ("EDC") and Business Development Bank of Canada ("BDC") funding and its go-forward strategic plan.

### **✘ Obsidian is struggling financially**

Obsidian's ability to operate as a profitable going concern entity is in question. Obsidian's auditor noted in the last set of audited financial statements that "substantial doubt exists about the Company's ability to continue as a going concern", meaning there is uncertainty whether Obsidian has sufficient liquidity over the next 12 months to settle their liabilities as they become due, in order to avoid a extremely negative outcome for its shareholders.

According to its financial statements, Obsidian has limited liquidity to grow operations. Obsidian has been posting negative free cash flow for every quarter, since December 31, 2017 and the cash shortfalls have been accumulating in long-term debt.

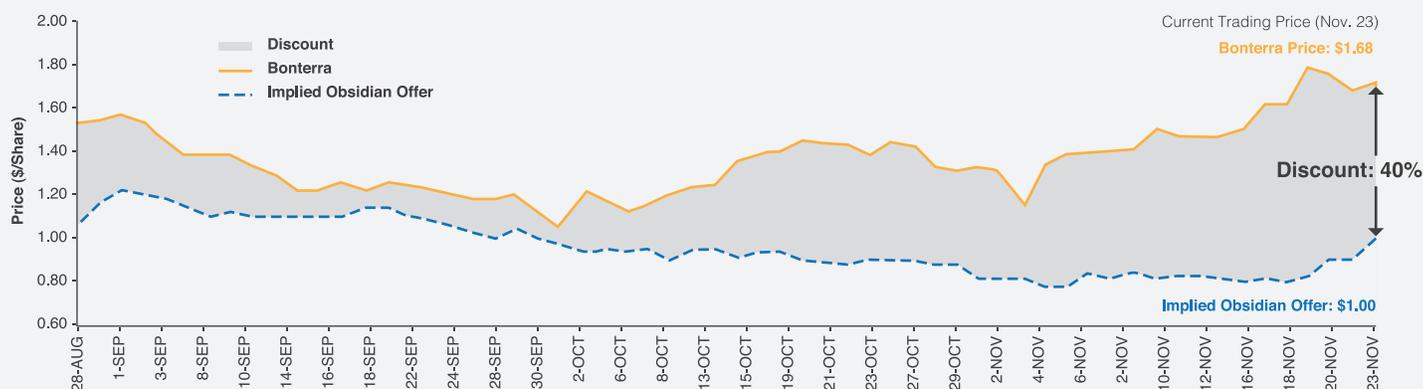
Adding to its financial difficulties, as at September 30, 2020, Obsidian reported asset retirement obligations (undiscounted and uninflated) ("ARO") of \$605 million, which represents over 107% of its current enterprise value (16.5 times its market capitalization), whereas Bonterra reported ARO of \$156 million, which represents less than 45% of its current enterprise value (2.8 times its market capitalization).

## ✘ Obsidian's projections are unsupported

Obsidian has not provided any detail on their proposed cost savings and synergies or how they would be realized which calls into question Obsidian's ability to achieve such savings and synergies.

The negative "take under" premium has widened since the announcement. Based on the closing prices for both Companies on the TSX on November 23, 2020 (Obsidian - \$0.50, Bonterra - \$1.68), the exchange ratio has only become less favourable for Bonterra shareholders in recent weeks. Bonterra's share price has increased in value since the announcement of EDC and BDC programs.

Price Performance Since the Day Prior to Obsidian Announcing Proposed Combination <sup>(1)</sup>



<sup>(1)</sup> Based on the closing prices of Bonterra and Obsidian shares on all Canadian exchanges and an exchange ratio of 2.0x Obsidian shares for each Bonterra share.

## ✘ The Hostile Bid is highly conditional on obtaining required consents and approvals

In addition to requiring that at least 66<sup>2</sup>/<sub>3</sub>% of Bonterra shares validly tendered to the offer, the Hostile Bid is conditional on obtaining all necessary third-party consents and approvals that may be required, including the consent of each of Obsidian's and Bonterra's lenders, and there is no certainty such approvals could be obtained. On October 29, 2020, Obsidian announced the extension of its syndicated credit facility to January 29, 2021, a negative signal, given the short period of the extension. This raises doubts about Obsidian's ability to obtain any additional future financing.

Independent third parties agree. The majority of research analysts and proxy advisors believe the transaction is highly unlikely to proceed:

- "Shareholders should take note that the Offer, as currently structured, has almost no practical likelihood of being successful at this time." (Glass Lewis, November 2020)
- "Shareholders should note that the Offer was at a significant discount to Bonterra's market price at the time of the announcement of the Offer. Furthermore, since the announcement, the gap between the implied value to the Offer and Bonterra's trading price has widened. This could mean that the requisite number of Bonterra shares may not be tendered." (ISS, November 2020)
- "Is the exchange ratio fair? We don't believe so." Raymond James Research (September 11, 2020)
- "Many of these claims made by Obsidian are dependent on higher than current strip commodity prices. Moreover, claims around dividend reinstatement and emerging as a consolidator are questionable...As such, we see value in the Company opting to move forward with its lenders to finalize terms related to its \$45MM BDC term loan that will provide a helpful liquidity boost in the near-term." Haywood Research (September 22, 2020)

✔ **Bonterra is well-positioned to implement its strategic plan based on its newly-available funding and a continued focus on sustainability and free cash flow generation**

- Bonterra is one of the first Canadian energy producers to qualify and be approved for the EDC and BDC programs, a condition of which is financial viability;
- With the successful completion of its recent financing initiatives, Bonterra's go-forward strategic plan is expected to grow production by more than 30% and return the Company's average annual production to pre-COVID levels of approximately 13,000 BOE per day in 2021;
- Bonterra's strategic plan has the support of its banking syndicate, which has agreed to extend the maturity date of its senior credit facility to December 31, 2021 and maintain Bonterra's current \$300 million borrowing base;
- BDC's commitment of \$45 million strengthens Bonterra's liquidity and will provide options and funding for a development drilling and abandonment programs that will help create significant value for shareholders; and
- Through its commitment of \$38.4 million, EDC has joined Bonterra's banking syndicate demonstrating strong alignment with the Company's current capital providers and management.

✔ **Bonterra shareholders support Bonterra's go forward plan as a stand-alone entity**

- Bonterra shareholders representing more than 33% of the Company's outstanding common shares were contacted and have confirmed they will not tender their common shares to the offer.
- Bonterra is proud of its established history of creating long-term sustainability and growth for shareholders. With significant recent funding advancements from the BDC, EDC, and additional abandonment capital from the Site Rehabilitation Program, the Company is well-positioned to continue generating sustained value. Bonterra has the assets and the people to continue pursuing profitable development of its high-quality, Cardium light oil asset base in order to generate long-term net asset value growth as the economy recovers from the COVID-19 pandemic.

**Reject the Hostile Bid**

To reject the Hostile Bid, simply take no action – do not tender your shares. If you have tendered your shares in error or now wish to withdraw them, simply ask your broker or Laurel Hill Advisory Group at 1-877-452-7184 (North America Toll Free), 1-416-304-0211 (collect calls outside North America) or [assistance@laurelhill.com](mailto:assistance@laurelhill.com) to assist with that process.

**Questions may be directed to Bonterra's Strategic Advisor and Proxy Solicitation Agent at:**

**Laurel Hill Advisory Group**

**North America Toll Free:** 1-877-452-7184

**Collect Calls Outside North America:** 1-416-304-0211

**Email:** [assistance@laurelhill.com](mailto:assistance@laurelhill.com)

