

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following report dated November 9, 2020 is a review of the operations and current financial position for the three and nine months ended September 30, 2020 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, 2019 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 its statement of cash flows. Bonterra calculates 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 (\$ 000s except \$ per share)	2020				2019		
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial							
Revenue - oil and gas sales	29,155	22,171	38,555	50,743	47,320	54,852	49,834
Cash flow from operations	6,370	4,429	22,473	20,767	19,774	25,468	15,123
Per share - basic and diluted	0.19	0.13	0.67	0.62	0.59	0.76	0.45
Dividend payout ratio	0%	0%	4%	5%	5%	4%	7%
Cash dividends per share	0.00	0.00	0.03	0.03	0.03	0.03	0.03
Net earnings (loss)	(5,211)	(5,954)	(284,653)	(1,389)	(1,276)	23,131	1,457
Per share - basic and diluted	(0.16)	(0.18)	(8.53)	(0.04)	(0.04)	0.69	0.04
Capital expenditures	2,819	104	21,741	5,678	17,845	9,042	21,062
Total assets	722,910	732,462	743,533	1,087,817	1,133,137	1,123,513	1,124,043
Working capital deficiency ⁽¹⁾	295,168	299,445	39,769	19,745	24,599	22,238	30,139
Bank debt ⁽¹⁾	274,038	277,823	260,919	273,065	283,470	288,545	296,594
Net debt	295,168	299,445	300,688	292,810	308,069	310,783	326,733
Shareholders' equity	207,325	212,342	218,211	503,949	506,011	507,659	484,980
Operations							
Oil (barrels per day)	5,355	5,553	7,058	7,255	7,157	7,746	7,081
NGLs (barrels per day)	1,064	1,104	999	1,016	1,009	970	949
Natural gas (MCF per day)	21,510	21,142	23,864	24,697	23,820	23,750	23,938
Total BOE per day	10,004	10,181	12,034	12,387	12,136	12,674	12,020

⁽¹⁾ Bank debt consists of the Company's bank facility. As of June 30, 2020, the amount drawn on the bank facility has a maturity date of April 28, 2021 and has been reclassified to current liabilities and is included in working capital deficiency.

As at and for the periods ended (\$ 000s except \$ per share)	2018			
	Q4	Q3	Q2	Q1
Financial				
Revenue - oil and gas sales	34,988	63,817	67,458	57,124
Cash flow from operations	20,509	33,669	31,908	29,877
Per share - basic and diluted	0.61	1.01	0.96	0.90
Dividend payout ratio	34%	30%	31%	33%
Cash dividends per share	0.21	0.30	0.30	0.30
Net earnings (loss)	(10,909)	5,756	8,925	3,395
Per share - basic and diluted	(0.33)	0.17	0.27	0.10
Capital expenditures	4,785	18,814	18,970	36,168
Total assets	1,103,833	1,137,748	1,147,501	1,142,670
Working capital deficiency	30,281	35,319	27,069	46,630
Long-term debt ⁽¹⁾	298,660	293,197	303,413	291,994
Net debt	328,941	328,516	330,482	338,624
Shareholders' equity	483,970	500,507	503,979	504,240
Operations				
Oil (barrels per day)	7,756	7,949	8,743	8,034
NGLs (barrels per day)	1,025	1,070	984	900
Natural gas (MCF per day)	24,045	24,144	25,317	24,701
Total BOE per day	12,789	13,043	13,946	13,051

⁽¹⁾ Long-term debt or bank debt consists of the Company's bank facility.

Business Environment and Sensitivities

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

	Q3-2020	Q2-2020	Q1-2020	Q4-2019	Q3-2019	Q2-2019	Q1-2019	Q4-2018
Crude oil								
WTI (U.S.\$/bbl)	40.93	27.85	46.17	56.96	56.45	59.81	54.90	58.81
WTI to MSW Stream Index								
Differential (U.S.\$/bbl) ⁽¹⁾	(3.51)	(6.14)	(7.58)	(5.37)	(4.66)	(4.62)	(4.85)	(26.30)
Foreign exchange								
U.S.\$ to Cdn\$	1.3316	1.3860	1.3445	1.3201	1.3207	1.3375	1.3293	1.3215
Bonterra average realized								
oil price (Cdn\$/bbl)	45.73	33.31	49.67	63.37	65.49	71.27	64.87	38.96
Natural gas								
AECO (Cdn\$/mcf)	2.23	1.98	2.02	2.46	0.91	1.03	2.61	1.55
Bonterra average realized								
gas price (Cdn\$/mcf)	2.40	2.14	2.26	2.71	0.96	1.09	2.70	1.77

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

The overall volatility in Bonterra's average realized commodity prices can be impacted by numerous events or factors, however none have been as impactful as the ongoing effects of the COVID-19 pandemic.

Volatility in WTI benchmark pricing continued through the third quarter of 2020. The average WTI price increased by over US\$13 per barrel to US\$40.93 in the quarter, due to improving supply and demand dynamics. Exiting the second quarter and throughout the third quarter, demand has been increasing and has provided improved and more stabilized pricing as countries around the world started to return to more normal activity levels. Recently, concern around the potential for a second wave of COVID-19 and a possible associated decrease in global mobility will likely result in continued price volatility through 2020 and into 2021.

Canadian crude oil differentials also improved through the third quarter of 2020. Decreased storage levels in Canada, better egress, and a dispute resolution between Enbridge Inc. and the State of Michigan concerning Enbridge's Line 5 underwater crossing of the Great Lakes all contributed to improved differentials in the third quarter. Looking forward, there are several pipeline projects underway, with the most significant being the Enbridge Line 3 Expansion, the Trans Mountain Expansion, and the Keystone XL pipeline. Completion of any proposed pipeline expansion projects or increasing Canada's export capabilities by expanding capacity on existing lines will have a positive effect on the movement and pricing of Canadian barrels.

The AECO benchmark price for natural gas also increased in the third quarter of 2020. Improved access to storage, limited maintenance on TC Energy Corporation's NGTL pipeline system and lower drilling than past years were all contributing factors. Forecast pricing through the remainder of 2020 and into 2021 continue to reflect an improved and stable AECO market. Planned facility additions for the NGTL system and progress by LNG Canada for the Kitimat liquefied natural gas export facility may improve sentiment towards western Canadian-based natural gas producers. While these projects do not impact near-term supply and demand imbalances, they do have positive implications for the longer term.

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 2020⁽¹⁾

Impact on cash flow	Change (\$)	\$000s	\$ per share ⁽²⁾
Realized crude oil price (\$/bbl)	1.00	2,074	0.06
Realized natural gas price (\$/mcf)	0.10	780	0.02
U.S.\$ to Canadian \$ exchange rate	0.01	519	0.02

⁽¹⁾ This analysis uses current royalty rates, annualized estimated average production of 10,700 BOE per day and no changes in working capital

⁽²⁾ Based on annualized basic weighted average shares outstanding of 33,388,796

Business Overview, Strategy and Key Performance Drivers

Beginning in March 2020, the COVID-19 pandemic has caused a severe deterioration in world oil demand leading to an unprecedented decrease in oil prices. Bonterra remains focused and will continue to act swiftly and prudently to stabilize the Company's financial position and to preserve the value of its crude oil reserves for an eventual oil price recovery.

As Bonterra moves forward, the Company reiterates its recommendation to shareholders to reject Obsidian Energy Ltd.'s ("Obsidian's") unsolicited bid for the Company's shares. Bonterra has already received notice that shareholders, including every member of the Bonterra Board and management team, representing more than 33 percent of the common shares outstanding, will not tender their common shares to the hostile bid. The Company continues to recommend shareholders reject the hostile bid and take no action. Bonterra is proud of its established history of working within a challenging market environment to pursue long-term sustainability and value generation.

Subsequent to the quarter, Bonterra has received approval from its syndicate of lenders for the Export Development Canada ("EDC") and Business Development Bank of Canada ("BDC") programs and to extend the revolving period applicable to the Company's existing credit facility to November 13, 2020 from October 30, 2020. This short term extension affords Bonterra and associated parties the time required to finalize definitive documentation pertaining to the BDC second lien non-revolving four-year term facility for \$45 million (the "BDC Term Facility") and the reserve-based lending commitment from EDC of up to \$38.4 million (the "EDC Commitment"). The EDC Commitment, combined with the approved BDC term facility, subject to legal and banking documentation, demonstrates the confidence EDC and BDC maintain in the Company.

While banking documentation related to the BDC Term Facility and EDC Commitment are finalized, Bonterra's lending syndicate has consented to the Company commencing its expanded 2020 capital expenditure program during the November extension period in an amount up to \$9 million as a draw on its existing credit facility. This consent, representing the BDC Term Facility capital expenditure budget for the period to November 13, 2020 as provided to the lending syndicate, affords Bonterra near-term liquidity to help fund its winter 2020 drilling program. The 2020 winter drilling program supports long-term, sustainable net asset value per share growth as the economy recovers.

For Q3 2020, production averaged 10,004 BOE per day, a decrease of 177 BOE per day from Q2 2020, caused primarily from no new wells being placed on production since Q1 2020, partially offset by the reactivation of approximately 900 BOE per day of previously uneconomic voluntarily shut-in production during the quarter, representing approximately half of the 1,800 BOE per day that was shut-in during the second quarter of 2020. Bonterra's operations are very flexible and allow the Company to respond quickly to a changing commodity price environment by shutting-in production at minimal cost without the risk of long-term reservoir impairment. The Company can rapidly restart or shut-in production by individually assessing netbacks down to a facility or well basis, depending on the commodity price environment, to preserve reserves and maximize cash flow.

To further support stability while facing severe market volatility, and as part of Bonterra's ongoing efforts to diversify crude oil pricing and to protect future cash flow, the Company executed physical delivery sales and risk management contracts for the 2020 year. For the balance of 2020, Bonterra has secured an average of \$47.17 per bbl on 1,832 bbls per day in Q4 2020 (approximately one-third of Bonterra's crude oil production).

The Company also diversified its natural gas pricing for the remainder of 2020 and the first ten months of 2021 by executing physical delivery sales contracts on 6,989 GJs per day for the fourth quarter and 3,000 GJs per day for the first ten months of 2021 ending October 31, 2021 at an average price of \$2.64 per GJ and \$2.79 per GJ, respectively.

Bonterra is committed to employing local services in Drayton Valley and to being a key economic contributor to rural and surrounding communities located within central Alberta. The Company's upstream oil and gas assets are primarily focused on the development of the Pembina and Willesden Green Cardium lands within central Alberta. The Pembina Cardium reservoir is the largest conventional oil reservoir in western Canada that features large original-oil-in-place with very low recoveries to date. Bonterra operates approximately 90 percent of its production and operates the majority of its related oil and gas processing facilities, which require minimal additional capital to support an increase in production.

Bonterra's successful operations are dependent upon several factors including, but not limited to: commodity prices, efficient management of capital spending, the 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 daily production volumes, average realized prices, and average production costs per unit of production. Disclosure of these key performance measures can be found in this MD&A and/or previous interim or annual MD&A disclosures.

Drilling

	Three months ended						Nine months ended			
	September 30, 2020		June 30, 2020		September 30, 2019		September 30, 2020		September 30, 2019	
	Gross ⁽¹⁾	Net ⁽²⁾								
Crude oil horizontal-operated	3	3.0	-	-	7	7.0	11	11.0	20	20.0
Crude oil horizontal-non-operated	-	-	-	-	5	0.5	-	-	6	0.6
Total	3	3.0	0	0.0	12	7.5	11	11.0	26	20.6
Success rate	100%		0%		100%		91%		100%	

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

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

During the first nine months of 2020, the Company drilled 11 gross (11.0 net) operated wells and completed, tied-in and placed on production nine gross (9.0 net) operated wells. Three of the wells completed and tied-in during Q1 2020 were drilled in late 2019. Five gross (5.0 net) operated wells drilled in 2020 were not completed as one well was abandoned due to subsurface fractures causing loss of well bore integrity. The remaining four wells will be placed on production in the fourth quarter. The Company has depleted the full amount of \$1,299,000 related to unsuccessful drill costs related to the abandoned well. Subsequent to the quarter the Company has drilled 5 gross (5.0 net) wells and expects to complete, tie-in and place on production by the end of Q4 2020.

Production

	Three months ended			Nine months ended	
	September 30, 2020	June 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Crude oil (barrels per day)	5,355	5,553	7,157	5,987	7,328
NGLs (barrels per day)	1,064	1,104	1,009	1,056	976
Natural gas (MCF per day)	21,510	21,142	23,820	22,169	23,836
Average BOE per day	10,004	10,181	12,136	10,737	12,277

The Company averaged 10,737 BOE per day for the first nine months of 2020, compared to 12,277 BOE per day for the same period in 2019. The decrease in production was primarily incurred in the second quarter as the Company voluntarily shut-in uneconomic production of 1,800 BOE per day and deferred its capital program due to low commodity prices from the effects of the COVID-19 pandemic. Q3 2020 production decreased by 177 BOE per day compared to the Q2 2020, caused primarily from production declines with no new wells being placed on production since Q1 2020. This was partially offset by the reactivation of approximately half of the second quarter's uneconomic voluntarily shut-in production in the third quarter.

The Company expects production to increase with more new wells coming on production from the BDC financing and the further reactivation of shut-in wells during the fourth quarter.

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, 2020	June 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Production volumes (BOE)	920,387	926,516	1,116,506	2,942,037	3,351,689
Gross production revenue	31.68	23.93	42.38	30.55	45.35
Risk management contracts realized gain	(1.66)	0.95	-	0.32	-
Royalties	(1.73)	(1.64)	(3.76)	(1.99)	(3.50)
Production costs	(13.33)	(13.84)	(14.32)	(14.43)	(15.03)
Field netback	14.96	9.40	24.30	14.45	26.82
General and administrative	(3.07)	(1.64)	(1.05)	(2.05)	(1.48)
Interest and other	(5.08)	(3.24)	(3.35)	(3.85)	(3.48)
Cash netback	6.81	4.52	19.90	8.55	21.86

Cash netbacks decreased in the first nine months of 2020 compared to the same period in 2019 primarily due to lower realized oil prices and an increase on credit facility interest from increased interest rates. Quarter-over-quarter cash netbacks were approximately the same as commodity prices increased, while correspondingly, interest expense and general and administrative costs increased. The Company incurred approximately \$1.66 per BOE of non-recurring general and administrative costs in the third quarter of 2020, primarily including unsolicited bid costs of the Company's shares, and to a lesser extent, finance costs relating to the BDC program.

Oil and Gas Sales

Revenue - oil and gas sales (\$ 000s)	Three months ended			Nine months ended	
	September 30, 2020	June 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Crude oil	22,526	16,835	43,121	71,266	134,699
NGL	1,889	1,220	2,085	4,856	7,020
Natural gas	4,740	4,116	2,114	13,759	10,287
	29,155	22,171	47,320	89,881	152,006
Average realized prices:					
Crude oil (\$ per barrel)	45.73	33.31	65.49	43.45	67.33
NGLs (\$ per barrel)	19.29	12.14	22.45	16.78	26.34
Natural gas (\$ per MCF)	2.40	2.14	0.96	2.27	1.58
Average (\$ per BOE)	31.68	23.93	42.38	30.55	45.35
Average BOE per day	10,004	10,181	12,136	10,737	12,277

Revenue from oil and gas sales in 2020 decreased by \$62,125,000, or 41 percent, compared to the same period in 2019. The decrease in oil and gas sales was primarily driven by a 33 percent decrease in Bonterra's realized crude oil prices from weak demand caused by the COVID-19 pandemic. Quarter-over-quarter oil and gas sales increased as the price for oil increased since the peak of the COVID-19 pandemic in Q2 2020.

The Company's product split on a revenue basis is weighted approximately 85 percent to crude oil and NGLs for 2020.

Royalties

(\$ 000s)	Three months ended			Nine months ended	
	September 30, 2020	June 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Crown royalties	656	1,000	2,563	3,191	6,450
Freehold, gross overriding and other royalties	933	520	1,632	2,673	5,274
Total royalties	1,589	1,520	4,195	5,864	11,724
Crown royalties - percentage of revenue	2.3	4.5	5.4	3.6	4.2
Freehold, gross overriding and other royalties - percentage of revenue	3.2	2.3	3.4	3.0	3.5
Royalties - percentage of revenue	5.5	6.8	8.8	6.6	7.7
Royalties \$ per BOE	1.73	1.64	3.76	1.99	3.50

Royalties paid by the Company consist of both crown royalties to the Provinces of Alberta, Saskatchewan and British Columbia and other royalties. Total royalties for the first nine months of September 30, 2020 decreased by \$1.51 per BOE compared to the same period in 2019. The decrease was primarily the result of a reduction in crude oil prices.

The decrease in royalties in Q3 2020 compared to Q2 2020 is primarily due to an annual gas cost allowance adjustment received in Q2 2020.

Production Costs

(\$ 000s except \$ per BOE)	Three months ended			Nine months ended	
	September 30, 2020	June 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Production costs	12,274	12,823	15,989	42,461	50,369
\$ per BOE	13.33	13.84	14.32	14.43	15.03

Production costs for 2020 decreased from the same period in 2019 primarily due to shutting-in higher cost batteries due to depressed crude oil prices in the second quarter of 2020. In addition, the Government of Alberta has waived approximately \$1 million of certain levies due to the COVID-19 pandemic.

Production costs for Q3 2020 decreased by \$549,000 compared to Q2 2020 primarily due to a reduction in trucking costs from facility consolidations and lower maintenance costs after spring breakup.

Other Income

(\$ 000s)	Three months ended			Nine months ended	
	September 30, 2020	June 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Investment income	19	8	11	38	43
Administrative income	54	42	25	140	80
Gain on sale of property	-	-	3	-	5
Deferred consideration	201	132	301	675	927
Realized gain (loss) on risk management contracts	(1,524)	877	-	941	-
Unrealized gain (loss) on risk management contracts	1,141	(2,950)	(58)	(13)	(58)
	(109)	(1,891)	282	1,781	997

Deferred consideration relates to a deferred gain on the sale of a two percent overriding royalty interest, which is recognized into revenue using the same unit-of-production method as the encumbered property, plant and equipment assets.

The market value and carrying value of the investments held by the Company at September 30, 2020 was \$242,000 (September 30, 2019 - \$265,000). There were no dispositions for the nine-month periods ended September 30, 2020 or September 30, 2019. 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 provided and production equipment rentals to other companies.

Bonterra entered into financial derivatives to minimize commodity price risk on crude oil sales. The financial derivatives outstanding are for the period from January 1, 2020 to December 31, 2020. For the first nine months of 2020 a total of 305,000 barrels of crude oil (approximately 2,000 barrels of oil per day at certain times during the period) received fixed Edmonton Par prices ranging from \$19.25 to \$69.60 per barrel. Financial derivatives outstanding for the fourth quarter are for a total of 168,500 barrels of crude oil (approximately 1,500 barrels of oil per day) at fixed Edmonton Par prices ranging from \$44.05 to \$49.00 per barrel. These contracts are not considered normal sales contracts and are recorded at fair value.

General and Administration (G&A) Expense

(\$ 000s except \$ per BOE)	Three months ended			Nine months ended	
	September 30, 2020	June 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Employee compensation	650	700	987	2,491	3,202
Office and administrative - recurring	647	816	185	2,016	1,754
Total G&A recurring	1,297	1,516	1,172	4,507	4,956
Office and administrative - nonrecurring	1,531	-	-	1,531	-
Total G&A	2,828	1,516	1,172	6,038	4,956
\$ per BOE recurring	1.41	1.64	1.05	1.53	1.48
\$ per BOE nonrecurring	1.66	-	-	0.52	-
\$ per BOE total	3.07	1.64	1.05	2.05	1.48

Employee compensation expense decreased by \$711,000 for the first nine months of 2020 compared to 2019, as a result of the impact of the COVID-19 pandemic. Employment compensation expenses have declined due to reduced work weeks, lower overall compensation and the CEWS government wage subsidy program which benefited Bonterra since the beginning of the second quarter.

Office and administrative recurring expenses for the first nine months of 2020 increased by \$262,000 compared to the same period in 2019 primarily due to an increase in bank renewal fees. The quarter-over-quarter decrease of \$169,000 was primarily due to completion of computer security enhancements in the second quarter and a decrease in bad debts in the third quarter.

Non-recurring office and administrative costs are expenditures related to an unsolicited bid for the Company of approximately \$1,250,000, with additional bank finance costs related to government programs.

Finance Costs

(\$ 000s except \$ per BOE)	Three months ended			Nine months ended	
	September 30, 2020	June 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Interest on bank debt	4,476	2,862	3,586	10,786	11,203
Other interest	271	192	194	730	579
Interest expense	4,747	3,054	3,780	11,516	11,782
\$ per BOE	5.16	3.30	3.39	3.91	3.52
Unwinding of the discounted value of decommissioning liabilities	780	775	731	2,334	2,221
Total finance costs	5,527	3,829	4,511	13,850	14,003

Interest on bank debt decreased in the first nine months of 2020 compared to 2019 due to a \$20,356,000 decrease in the average bank debt balance outstanding, which was partially offset by an increase in interest rates from the negative effects of COVID-19 on the Company's net debt to earnings before income taxes and depletion and amortization (or "EBITDA" as defined by the Company's bank facility) ratio. Quarter over quarter interest rates increased as EBITDA decreased with commodity prices collapsing mainly due from the COVID-19 pandemic in the second quarter, resulting in a higher interest rate grid in the third quarter from the banks compared to prior periods. Interest rates for the current quarter are determined based on the trailing quarter and calculated by taking 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 primarily to amounts paid to a related party (see related party transactions for details) and a \$7,500,000 subordinated promissory note from a private investor. For more information about the subordinated promissory note, refer to Note 5 of the September 30, 2020 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 \$2,109,000.

Share-Option Compensation

(\$ 000s)	Three months ended			Nine months ended	
	September 30, 2020	June 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Share-option compensation	147	41	649	244	1,828

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 directors, officers and employees.

Share-option compensation decreased by \$1,584,000 in the first nine months of 2020 compared to 2019. This decline is primarily due to the higher share price volatility on most of the options issued in 2018 (which were fully amortized in 2019) relative to the options issued in the first quarter of 2020 (which will be fully amortized in 2021).

Based on the outstanding options as of September 30, 2020, the Company has an unamortized expense of \$431,000, of which \$131,000 will be recorded for the remainder of 2020; \$263,000 for 2021; and \$37,000 thereafter. For more information about options issued and outstanding, refer to Note 8 of the September 30, 2020 condensed financial statements.

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

(\$ 000s)	Three months ended			Nine months ended	
	September 30, 2020	June 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Depletion and depreciation	13,404	8,327	22,973	44,786	66,143
Impairment of oil and gas assets	-	-	-	331,678	-

The provision for depletion and depreciation (D&D) decreased in the first nine months of 2020 compared to 2019 primarily due to less capital to deplete and depreciate in the second and third quarter of 2020 due to the impairment provision. The increase in depletion and depreciation in Q3 2020 compared to Q2 2020 was due to reactivating wells and facilities that were shut-in, increasing the depletion rate with additional capital subject to depletion. This was partially offset from natural declines with no new wells being placed on production since the first quarter of 2020.

At March 31, 2020 the Company determined that the carrying value of the Company's Alberta cash generating unit ("CGU") exceeded its recoverable amount. A total impairment loss of \$331,678,000 was recognized, with \$234,302,000 recognized on the Company's property, plant and equipment (PP&E), \$92,810,000 was applied to the Company's goodwill and an additional \$4,566,000 was applied to the Company's E&E assets. The impairment loss was

the result of the COVID-19 pandemic effect on the forward commodity benchmark prices used in impairment testing at March 31, 2020. The value of the Company's assets was estimated based on independent evaluator pricing, proved plus probable reserves and a discount rate of 15 percent. No further indicators of impairment were identified as of September 30, 2020. The impairment charge does not impact the Company's cash flow or the amount of credit available under our bank credit facilities. The impairment can be reversed in future periods up to the original carrying value less any associated D&D for PP&E assets, should there be indicators that the value of the assets has increased. For more information about PP&E and impairment, refer to Note 3 of the September 30, 2020 condensed financial statements.

Taxes

The Company recorded a deferred income tax recovery of \$57,441,000 (2019 – \$19,424,000). The deferred income tax recovery for 2020 was primarily due to the impairment provision taken in the first quarter of 2020, and 2019 deferred income tax recovery was due to a decrease in the Alberta corporate income tax rate.

For additional information regarding income taxes, see Note 7 of the September 30, 2020 condensed financial statements.

Net Earnings (Loss)

(\$ 000s except \$ per share)	Three months ended			Nine months ended	
	September 30, 2020	June 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Net earnings (loss)	(5,211)	(5,954)	(1,276)	(295,818)	23,312
\$ per share - basic	(0.16)	(0.18)	(0.04)	(8.86)	0.70
\$ per share - diluted	(0.16)	(0.18)	(0.04)	(8.86)	0.70

Net earnings for the first nine months of 2020 decreased by \$319,130,000 compared to the same period in 2019. The decrease in net earnings was primarily attributed to the impairment provision taken in Q1 2020 as a result of significantly reduced forward commodity benchmark prices due to the effects of the COVID-19 pandemic and lower D&D expense in the second and third quarter of 2020 from the reduced PP&E carrying value, which was partially offset by deferred income tax recovery on the impairment provision.

Other Comprehensive Loss

Other comprehensive loss for 2020 consists of an unrealized loss before tax on investments (including investment in a related party) of \$45,000 relating to a decrease in the investments' fair value (September 30, 2019 – unrealized loss of \$109,000). 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, 2020	June 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Cash flow from operations	6,370	4,429	19,774	33,272	60,365
\$ per share - basic	0.19	0.13	0.59	1.00	1.81
\$ per share - diluted	0.19	0.13	0.59	1.00	1.81

In the first nine months of 2020, cash flow from operations decreased by \$27,093,000 compared to 2019. This was primarily due to a decrease in oil and gas sales and non-recurring G&A costs, which was partially offset by decreased royalties and production costs, a \$941,000 realized gain on risk management contracts and an increase in non-cash working capital.

The quarter-over-quarter cash flow from operations increased due to an increase in commodity prices and decrease in production costs, that were partially offset by an increase in interest rates on bank debt and non-recurring G&A costs of \$1,531,000, of which \$1,250,000 was related to unsolicited bid costs for the Company's shares.

Related Party Transactions

Bonterra holds 1,034,523 (December 31, 2019 – 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, 2020 of \$207,000 (December 31, 2019 – \$155,000). The Company provides marketing services for Pine Cliff. All services performed were charged at estimated fair value. As at September 30, 2020, the Company had an account receivable from Pine Cliff of \$67,000 (December 31, 2019 – \$47,000).

As at September 30, 2020, a loan to Bonterra provided by the Company's CEO, Chairman of the Board and major shareholder totaled \$12,000,000 (December 31, 2019 - \$12,000,000). Effective April 1, 2020 to July 1, 2020 the loan's interest rate temporarily decreased from five and a half percent to three percent and had no set repayment terms but was payable on demand. As of July 1, 2020, the interest rate was increased back to five and a half percent. 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. Interest paid on this loan during the first nine months of 2020 was \$224,000 (September 30, 2019 - \$298,000). Effective June 1, 2020, principal payments cannot be paid without bank approval. An additional \$197,000 in interest was accrued in accounts payable and accrued liabilities and cannot be settled for cash but may be settled by the issuance of common shares.

Liquidity and Capital Resources

Net Debt to Cash Flow from Operations

Bonterra continues to focus on monitoring overall debt while managing its cash flow and capital expenditures. The Company's net debt to twelve-month trailing cash flow ratio as of September 30, 2020 was 5.5 to 1 times (versus 3.6 to 1 times at December 31, 2019). The increased net debt to cash flow ratio is the result of a decrease in the Company's twelve-month trailing cash flow that is primarily due to the effect of the COVID-19 pandemic on crude oil prices and non-recurring G&A costs related to the unsolicited bid on the Company's shares. Compared to Q3 2019, ending net debt at Q3 2020 decreased by \$12,901,000 due to an enhanced focus on debt reduction and a lower capital spending program. Effective April 1, 2020 the Company suspended its monthly dividend and suspended its capital program as crude oil prices reached an all-time low in May. The Company's primary focus remains on managing its bank debt during a period of highly volatile commodity prices. Bonterra will continue to assess its capital expenditures compared to cash flow from operations on a quarterly basis.

Working Capital Deficiency and Net debt

(\$ 000s)	September 30, 2020	June 30, 2020	December 31, 2019	September 30, 2019
Working capital deficiency	295,168	299,445	19,745	24,599
Long-term bank debt	-	-	273,065	283,470
Net Debt	295,168	299,445	292,810	308,069

Net debt is a combination of long-term bank debt and working capital. As of September 30, 2020, the Company's bank facility has a maturity date of April 28, 2021 and has been moved to current liabilities. Bonterra actively monitors its credit availability and working capital to ensure that it has sufficient available funds to meet its financial requirements as they come due. Any of these events present risks that could affect Bonterra's ability to fund ongoing operations. If required, Bonterra will also consider short-term or long-term financing alternatives in order to meet its future liabilities.

Net debt for September 30, 2020 decreased by \$12,901,000 compared to September 30, 2019 primarily due to an enhanced focus on debt reduction and a lower capital spending program, which was partially offset by decreased cash flow in Q2 and Q3 2020 from the effects of the COVID-19 pandemic on crude oil prices. Net debt decreased from \$299,445,000 as at June 30, 2020 due to the increase in cash flow as commodity prices increased. The Company resumed its capital program in the third quarter and while banking documentation related to the bank approved BDC

Term Facility and EDC Commitment are being finalized, Bonterra's lending syndicate has consented to the Company commencing its expanded 2020 capital expenditure program up to November 13, 2020 in an amount up to \$9 million as a draw on its existing credit facility. The BDC program will allow the Company's production to return to pre COVID-19 levels which will have a positive effect on cash flow.

Working capital is calculated as current assets less current liabilities. Included in the working capital deficiency as at September 30, 2020 is \$19,500,000 of debt relating to the subordinated promissory note and the amount due to a related party and \$274,038,000 of bank debt that was reflected in long-term debt in previous periods. Effective June 1, 2020, the Company cannot make principal payments on the related party loan or the subordinated promissory note without bank approval. Interest has been accrued in accounts payable and accrued liabilities on both loans and cannot be settled for cash but may be settled by the issuance of common shares. No common shares have been issued to date. During each quarter, the Company manages net debt by monitoring capital spending relative to cash flow from operations.

Financial Risk Management

The Company executed 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. The Company also executed risk management contracts to manage commodity risk. These contracts are not considered normal sales contracts and are recorded at fair value. For more information on physical delivery and risk management contracts in place see Note 10 of the September 30, 2020 condensed financial statements.

Capital Expenditures

During the nine months ended September 30, 2020, the Company incurred capital expenditures of \$24,664,000 (September 30, 2019 - \$47,949,000), primarily in the first quarter. Of the total capital invested, \$20,419,000 was directed to the drilling of eleven gross (11.0 net) wells and the completion, equip and tie-in of nine gross (9.0 net) wells. Of the eleven wells drilled, one was not completed due to current economic prices and one well was abandoned due to subsurface fractures causing loss of well bore integrity. An amount of \$1,299,000 was fully depleted for unsuccessful drill costs. An additional \$4,245,000 was spent primarily on related infrastructure and recompletions. Subsequent to the quarter the Company has drilled 5 gross (5.0 net) wells and expects to complete, tie-in and place on production by the end of Q4 2020.

Decommissioning Liabilities

Bonterra has entered into the province of Alberta's Area-Based Closure ("ABC") program to reduce abandonment and reclamation costs and liabilities. This program provides numerous incentives to efficiently manage decommissioning liabilities that reduce overall cost. The ABC program currently requires the Company to spend an annual commitment of approximately \$3.3 million of its inactive wells, pipelines and facilities. Due to the impact of COVID-19, the current year requirement has been extended to the end of next year, of which the Company can apply approximately one third that it had spent in the first quarter of 2020. Through Alberta's Site Rehabilitation Program ("SRP") and other provincial programs, Bonterra expects to reduce its inactive well count by 58 percent over the next two years, under current approvals. The overall impact will reduce the annual spending commitments under the ABC program from \$3.3 million to \$2.0 million starting in 2023.

Bank Debt

Bank debt represents the outstanding amounts drawn on the Company's bank facility as described in the notes to the Company's audited annual financial statements. On July 14, 2020, the Company's credit facility was confirmed at \$300,000,000 (December 31, 2019 - \$325,000,000), comprised of a \$125,000,000 syndicated revolving credit facility, a \$25,000,000 non-syndicated revolving credit facility and a term loan of \$150,000,000. The amount drawn under the total bank facility at September 30, 2020 was \$274,038,000 (December 31, 2019 - \$273,065,000). The amounts borrowed under the renewed bank facility bear interest at a floating rate based on the applicable Canadian prime rate or Banker's Acceptance rate, plus between 2.00 percent and 10.00 percent, depending on the type of borrowing and the Company's consolidated debt to EBITDA ratio. The terms of the total revolving bank facility provide that the loan facility is revolving to October 30, 2020, with a maturity date of April 28, 2021.

The available lending limit of the bank facility is reviewed semi-annually on or before April 30 and October 31 or at the request of any one syndicate member during the year. Effective October 30, 2020, the syndicate of Canadian Financial Institutions have agreed to extend the borrowing base redetermination on the bank facility to November 13, 2020. This extension enables the Company to finalize definitive documentation pertaining to the bank syndicate approval of the Business Development Bank of Canada (“BDC”) second lien non-revolving four-year term facility for \$45,000,000 (the “BDC Term Facility”) and the reserve-based lending commitment from Export Development Canada (“EDC”) of up to \$38,400,000 (the “EDC Commitment”).

Under the current credit facility, the Company is restricted from making any payment of principal or interest on account of subordinated debt or dividend distributions. In addition, the Company is also limited to expenditures each quarter which cannot:

- exceed 110 percent or be less than 90 percent of the forecasted decommissioning expenditures settled;
- exceed 110 percent of forecasted capital expenditures, and;
- exceed 110 percent of the forecasted operating expenses.

The Company was within all forecasted expenditure limits for the three months ended September 30, 2020.

As at September 30, 2020, Bonterra classified its bank debt as a current liability and had a working capital deficiency. The Company was in compliance with all financial covenants on its total bank facility as at September 30, 2020.

After examining the economic factors that are causing the liquidity risk facing the Company, the judgment applied to these factors, and the various initiatives that the Company has and will undertake to strengthen its financial position, the Company believes it will have sufficient liquidity to support its ongoing operations and meet its current financial obligations as they come due for at least the next twelve months. There can be no assurance that the borrowing base review will not result in a material reduction in the borrowing base, and that the necessary funds will be available to meet its obligations as they become due subject to other alternative sources of financing.

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, 2020 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 also 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, September 30, 2020 and December 31, 2019	33,388,796	765,276

The Company provides a stock option plan for its directors, officers and employees. Under the plan, the Company may grant options for up to 3,338,880 (December 31, 2019 – 3,338,880) 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 September 30, 2020 condensed financial statements.

Dividend Policy

For the nine months ended September 30, 2020, the Company declared and paid dividends of \$1,002,000 (\$0.03 per share) (September 30, 2019 – \$3,005,000) (\$0.09 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.

On March 10, 2020, the Company's Board of Directors elected to suspend its monthly dividend, commencing in April, 2020. This is in response to the significant reduction in commodity pricing.

Quarterly Financial Information

	2020				2019		
For the periods ended (\$ 000s except \$ per share)	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue - oil and gas sales	29,155	22,171	38,555	50,743	47,320	54,852	49,834
Cash flow from operations	6,370	4,429	22,473	20,767	19,774	25,468	15,123
Net earnings (loss)	(5,211)	(5,954)	(284,653)	(1,389)	(1,276)	23,131	1,457
Per share - basic	(0.16)	(0.18)	(8.53)	(0.04)	(0.04)	0.69	0.04
Per share - diluted	(0.16)	(0.18)	(8.53)	(0.04)	(0.04)	0.69	0.04

	2018			
For the periods ended (\$ 000s except \$ per share)	Q4	Q3	Q2	Q1
Revenue - oil and gas sales	34,988	63,817	67,458	57,124
Cash flow from operations	20,509	33,669	31,908	29,877
Net loss	(10,909)	5,756	8,925	3,395
Per share - basic	(0.33)	0.17	0.27	0.10
Per share - diluted	(0.33)	0.17	0.27	0.10

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 nine months of 2020, the Company's net earnings significantly decreased mainly due to the effect of the COVID-19 pandemic on crude oil demand. Cash flow from operations also decreased in the second of 2020 due to low commodity prices in the peak of COVID-19's effect on oil prices. Although prices increased in the third quarter of 2020 the Company incurred \$1,250,000 of costs related to an unsolicited bid and an increase in bank finance costs which negatively impacted cash flow. Net earnings for Q2 2019 increased due to a deferred tax recovery from a decrease in the Alberta corporate income tax rate. The Canadian oil and gas industry experienced a significant decrease in the realized price for Canadian crude oil due to extremely wide differentials in Q4 2018 and extremely low WTI prices in the first nine months of 2020 due to the pandemic, which also negatively impacted Bonterra's net earnings and cash flow, as well as its Q1 2019 cash flow.

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, 2020 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, 2020.

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