

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

CONDENSED STATEMENT OF FINANCIAL POSITION

As at (unaudited) (\$ 000s)	Note	September 30, 2020	December 31, 2019
Assets			
Current			
Accounts receivable		9,766	21,764
Crude oil inventory		526	672
Prepaid expenses		6,115	3,908
Investments		35	131
		16,442	26,475
Investment in related party		207	155
Exploration and evaluation assets	3	-	3,980
Property, plant and equipment	3	697,400	955,536
Investment tax credit receivable	7	8,861	8,861
Goodwill	3	-	92,810
		722,910	1,087,817
Liabilities			
Current			
Accounts payable and accrued liabilities		17,070	25,423
Risk management contract	10	147	134
Due to related party	4	12,000	12,000
Subordinated promissory note	5	7,500	7,500
Bank debt	6	274,038	-
Deferred consideration		855	1,163
		311,610	46,220
Bank debt	6	-	273,065
Deferred consideration		11,898	12,266
Decommissioning liabilities		135,369	138,171
Deferred tax liability		56,708	114,146
		515,585	583,868
Shareholders' equity			
Share capital	8	765,276	765,276
Contributed surplus		30,478	30,234
Accumulated other comprehensive loss		(796)	(748)
Deficit		(587,633)	(290,813)
		207,325	503,949
		722,910	1,087,817

Subsequent events 6, 10

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended September 30 (unaudited) (\$ 000s, except \$ per share)		Three months ended		Nine months ended	
	Note	2020	2019	2020	2019
Revenue					
Oil and gas sales, net of royalties	9	27,566	43,125	84,017	140,282
Other income		73	39	178	128
Deferred consideration		201	301	675	927
Gain (loss) on risk management contracts	10	(383)	(58)	928	(58)
		27,457	43,407	85,798	141,279
Expenses					
Production		12,274	15,989	42,461	50,369
Office and administration		2,178	185	3,547	1,754
Employee compensation		650	987	2,491	3,202
Finance costs		5,527	4,511	13,850	14,003
Share-option compensation		147	649	244	1,828
Depletion and depreciation	3	13,404	22,973	44,786	66,143
Impairment of oil and gas assets	3	-	-	331,678	-
		34,180	45,294	439,057	137,299
Earnings (loss) before income taxes		(6,723)	(1,887)	(353,259)	3,980
Taxes					
Current income tax expense (recovery)	7	-	(376)	-	92
Deferred income tax recovery	7	(1,512)	(235)	(57,441)	(19,424)
		(1,512)	(611)	(57,441)	(19,332)
Net earnings (loss) for the period		(5,211)	(1,276)	(295,818)	23,312
Other comprehensive income (loss)					
Unrealized gain (loss) on investments		53	(22)	(45)	(109)
Deferred taxes on unrealized loss (gain) on investments		(6)	3	(3)	15
Other comprehensive income (loss) for the period		47	(19)	(48)	(94)
Total comprehensive income (loss) for the period		(5,164)	(1,295)	(295,866)	23,218
Net earnings (loss) per share - basic and diluted	8	(0.16)	(0.04)	(8.86)	0.70
Comprehensive income (loss) per share - basic and diluted	8	(0.15)	(0.04)	(8.86)	0.70

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF CASH FLOW

For the nine months ended September 30 (unaudited) (\$ 000s)	Note	Three months		Nine Months	
		2020	2019	2020	2019
Operating activities					
Net earnings (loss)		(5,211)	(1,276)	(295,818)	23,312
Items not affecting cash					
Deferred income taxes		(1,512)	(235)	(57,441)	(19,424)
Deferred consideration		(201)	(301)	(675)	(927)
Share-option compensation		147	649	244	1,828
Gain on sale of property and equipment		-	(3)	-	(5)
Unrealized loss (gain) on risk management contracts	10	(1,141)	58	13	58
Depletion and depreciation		13,404	22,973	44,786	66,143
Impairment of oil and gas assets		-	-	331,678	-
Unwinding of the discount on decommissioning liabilities		780	731	2,334	2,221
Investment income		(19)	(11)	(38)	(43)
Interest expense		4,747	3,780	11,516	11,782
Change in non-cash working capital accounts:					
Accounts receivable		504	(1,568)	11,859	(10,923)
Crude oil inventory		8	(9)	68	28
Prepaid expenses		(2,128)	802	(2,207)	(1,975)
Accounts payable and accrued liabilities		1,810	(978)	68	1,529
Decommissioning expenditures		(342)	(1,058)	(1,934)	(1,457)
Interest paid		(4,476)	(3,780)	(11,181)	(11,782)
Cash provided by operating activities		6,370	19,774	33,272	60,365
Financing activities					
Increase (decrease) of bank debt		(3,785)	(5,075)	973	(15,190)
Subordinated promissory note		-	-	-	(2,500)
Dividends		-	(1,002)	(1,002)	(3,005)
Cash used by financing activities		(3,785)	(6,077)	(29)	(20,695)
Investing activities					
Investment income received		19	11	38	43
Exploration and evaluation expenditures		-	-	(586)	-
Property, plant and equipment expenditures		(2,819)	(17,845)	(24,078)	(47,949)
Proceeds on sale of property		-	4	-	9
Change in non-cash working capital accounts:					
Accounts payable and accrued liabilities		146	4,398	(8,756)	8,633
Accounts receivable		69	(265)	139	(406)
Cash used in investing activities		(2,585)	(13,697)	(33,243)	(39,670)
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 loss ⁽²⁾	Deficit	Total shareholders' equity
January 1, 2019	33,388,796	765,276	28,087	(664)	(308,729)	483,970
Share-option compensation			1,828			1,828
Comprehensive income (loss)				(94)	23,312	23,218
Dividends					(3,005)	(3,005)
September 30, 2019	33,388,796	765,276	29,915	(758)	(288,422)	506,011
Share-option compensation			319			319
Comprehensive income (loss)				10	(1,389)	(1,379)
Dividends					(1,002)	(1,002)
December 31, 2019	33,388,796	765,276	30,234	(748)	(290,813)	503,949
Share-option compensation			244			244
Comprehensive loss				(48)	(295,818)	(295,866)
Dividends					(1,002)	(1,002)
September 30, 2020	33,388,796	765,276	30,478	(796)	(587,633)	207,325

⁽¹⁾ All amounts reported in Contributed Surplus relate to share-option compensation.

⁽²⁾ Accumulated other comprehensive income is comprised of unrealized gains and losses on investments fair value through other comprehensive income.

See accompanying notes to these condensed financial statements.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

As at September 30, 2020 and December 31, 2019 and for the three and nine months ended September 30, 2020 and September 30, 2019. (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 which is the development and production of oil and natural gas in the Western Canadian Sedimentary Basin.

The financial statements were authorized for issue by the Company’s Board of Directors on November 9, 2020.

2. BASIS OF PREPARATION AND FUTURE OPERATIONS

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 2019 audited annual financial statements, except 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 2019 audited annual financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

b) Changes in Accounting Policies

Government Grants

The Company may receive government grants which provide financial assistance as compensation for costs or expenditures to be incurred. Government grants are accounted for when there is reasonable assurance that conditions attached to the grants are met and that the grants will be received. The Company recognizes government grants in comprehensive income on a systematic basis and in line with recognition of the expenses that the grants are intended to compensate.

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, 2019	1,426,923	357,408	2,255	1,786,586
Additions	17,231	6,813	34	24,078
Adjustment to decommissioning liabilities	(3,202)	-	-	(3,202)
Balance at September 30, 2020	1,440,952	364,221	2,289	1,807,462

Accumulated depletion and depreciation (\$ 000s)	Oil and gas properties	Production facilities	Furniture fixtures & other equipment	Total property plant & equipment
Balance at December 31, 2019	(678,265)	(150,996)	(1,789)	(831,050)
Depletion and depreciation	(37,549)	(7,188)	(49)	(44,786)
Disposal and other	76	-	-	76
Impairment	(183,337)	(50,965)	-	(234,302)
Balance at September 30, 2020	(899,075)	(209,149)	(1,838)	(1,110,062)

Carrying amounts as at:

(\$ 000s)				
December 31, 2019	748,658	206,412	466	955,536
September 30, 2020	541,877	155,072	451	697,400

Impairment

As at March 31, 2020, the decrease in the forecast benchmark commodity prices were indicators of impairment. As a result, impairment and recovery testing were required and the Company prepared estimates of future cash flows to determine the recoverable amount of the respective assets.

The following table outlines the forecasted benchmark commodity prices and the exchange rates used in the impairment calculation of property, plant and equipment ("PP&E") at March 31, 2020.

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030 ⁽²⁾
WTI Crude oil \$US/Bbl ⁽¹⁾	31.67	42.57	50.51	58.17	60.66	61.97	63.21	64.47	65.77	67.08	68.43
AECO C-Spot \$Mmbtu ⁽¹⁾	1.90	2.28	2.45	2.58	2.65	2.73	2.78	2.84	2.89	2.94	3.01
Exchange rate US\$/Cdn	0.71	0.73	0.75	0.76	0.77	0.77	0.77	0.77	0.77	0.77	0.77

⁽¹⁾ The forecast benchmark commodity prices listed above are adjusted for quality differentials, heat content, transportation and marketing costs and other factors specific to the Company's operations in performing the Company's impairment tests.

⁽²⁾ Forecast benchmarks commodity prices are assumed to increase by 2.0% in each year after 2030 to end of the reserve life.

Discount rate - The Company used a pre-tax discount rate of 15 percent that reflects risks specific to the assets for which the future cash flow estimates have not been adjusted. The discount rate was determined based on the Company's assessment of risk based on experience. Changes in the general economic environment could result in material changes to this estimate.

At March 31, 2020 the Company determined that the carrying value of the Company's Alberta CGU exceeded its recoverable amount. A total impairment loss of \$331,678,000 was recognized, with \$234,302,000 recognized on the Company's PP&E, \$92,810,000 was applied to the Company's goodwill and an additional \$4,566,000 was applied to the Company's exploration and evaluation assets ("E&E"). The impairment loss was the result of the decline for the forward commodity benchmark prices used in impairment testing at March 31, 2020.

In future periods, the impairment can be reversed for PP&E up to the original carrying value less any associated depletion and depreciation, if the recoverable amounts of the Alberta CGU exceed the carrying value. Goodwill impairment cannot be reversed.

The following table summarizes the impairment expense for the period ended March 31, 2020:

CGU (\$000s, except %)	Recoverable amount	Discount rate	Impairment
Alberta	580,621	15.00%	331,678

Changes in any of the key judgments, such as a revision in reserves, changes in forecast benchmark commodity prices, discount rates, foreign exchange rates, capital or operating costs would impact the recoverable amounts of assets and any recoveries or impairment changes would affect net earnings. The most sensitive assumptions to the calculation are the discount rate and forecast benchmark commodity price estimates at March 31, 2020. The following sensitivities show the resulting impact on income before tax of the changes with all other variables held constant:

CGU (\$000s)	Discount rate		Commodity prices	
	Increase 1%	Decrease 1%	Increase 5%	Decrease 5%
Alberta	(34,176)	37,407	71,563	(72,032)

No further indicators of impairment were identified as of September 30, 2020.

4. TRANSACTIONS WITH RELATED PARTIES

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. No common shares have been issued to date.

The Company provides executive and marketing services for Pine Cliff Energy Ltd. (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)

5. SUBORDINATED PROMISSORY NOTE

As at September 30, 2020, Bonterra had \$7,500,000 (December 31, 2019 - \$7,500,000) outstanding on a subordinated note to a private investor. The loan bears interest at five and a half percent. The subordinated promissory note was callable only after thirty days' written notice by either party. Security consists of a floating demand debenture over all of the Company's assets and is subordinated to any and all claims in favor of the syndicate of senior lenders providing credit facilities to the Company. Interest paid on the subordinated promissory note during the first nine months was \$171,000 (September 30, 2019 - \$280,000). Effective June 1, 2020, the principal payments cannot be paid without bank approval. An additional \$138,000 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. No common shares have been issued to date.

6. BANK DEBT

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. 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 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.

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 September 30, 2020 (September 30, 2019 - \$900,000). Security for the bank facility consists of various floating demand debentures totaling \$750,000,000 (December 31, 2019 - \$750,000,000) over all of the Company's assets and a general security agreement with first ranking over all personal and real property.

Under the 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.

As at September 30, 2020, Bonterra had a working capital deficiency, however, was in compliance with all financial covenants on its total bank facility.

7. INCOME TAXES

(\$ 000s)	September 30, 2020	December 31, 2019
Deferred tax asset (liability) related to:		
Investments	86	81
Exploration and evaluation assets and property, plant and equipment	(100,645)	(149,134)
Investment tax credits	(2,041)	(2,041)
Decommissioning liabilities	31,174	31,824
Corporate tax losses carried forward	18,832	6,714
Financial derivative	34	31
Corporate capital tax losses carried forward	7,486	7,488
Unrecorded benefits of capital tax losses carried forward	(7,486)	(7,488)
Unrecorded benefits of successored resource related pools	(4,148)	(1,621)
Deferred tax asset (liability)	(56,708)	(114,146)

Income tax expense varies from the amounts that would be computed by applying Canadian federal and provincial income tax rates as follows:

(\$ 000s)	Three Months		Nine Months	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Earnings (loss) before taxes	(6,723)	(1,887)	(353,259)	3,980
Combined federal and provincial income tax rates	23.03%	26.00%	24.35%	26.67%
Income tax provision calculated using statutory tax rates	(1,548)	(491)	(86,028)	1,061
Increase (decrease) in taxes resulting from:				
Change in statutory tax rates ⁽¹⁾	-	-	-	(18,946)
Share-option compensation	35	169	59	488
Goodwill	-	-	22,602	-
Change in unrecorded benefits of tax pools	(3)	-	2,525	(1,569)
Change in estimates and other	4	(289)	3,401	(366)
	(1,512)	(611)	(57,441)	(19,332)

⁽¹⁾ Effective July 1, 2020 the combined federal and provincial tax rate for Bonterra is approximately 23.00% due to the provincial tax rate for Alberta, Canada decreasing from 10% to 8%.

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	59,359
Canadian oil and gas property expenditures	10	77,459
Canadian development expenditures	30	100,138
Canadian exploration expenditures	100	8,587
Federal income tax losses carried forward ⁽¹⁾	100	94,904
Provincial income tax losses carried forward ⁽²⁾	100	56,843
		397,290

⁽¹⁾ Federal income tax losses carried forward expire in the following years: 2035 - \$8,156,000; 2036 - \$35,823,000; 2037 - \$182,000; 2039 - \$2,163,000; 2040 - \$48,580,000.

⁽²⁾ Provincial income tax losses carried forward expire in the following years: 2036 - \$5,562,000; 2037 - \$182,000; 2039 - \$2,519,000; 2040 - \$48,580,000.

The Company has \$8,861,000 (December 31, 2019 - \$8,861,000) of investment tax credits that expire in the following years: 2024 - \$1,319,000; 2025 - \$2,258,000; 2026 - \$2,405,000; 2027 - \$2,009,000; 2028 - \$745,000; 2034 - \$99,000; and 2037 - \$26,000.

The Company has \$65,015,000 (December 31, 2019 - \$65,015,000) of capital losses carried forward which can only be claimed against taxable capital gains.

8. SHAREHOLDERS' EQUITY

Authorized

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

	Number	Amount (\$ 000s)
Issued and fully paid - common shares		
Balance, September 30, 2020 and December 31, 2019	33,388,796	765,276

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

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

	Three Months		Nine Months	
	2020	2019	2020	2019
Basic shares outstanding	33,388,796	33,388,796	33,388,796	33,388,796
Dilutive effect of share options ⁽¹⁾	-	-	14,969	-
Diluted shares outstanding	33,388,796	33,388,796	33,403,765	33,388,796

⁽¹⁾ The Company did not include 2,742,700 share-options for the three months ended September 30, 2020 (September 30, 2019 – 2,760,000) and 2,562,700 share-options for the nine months ended September 30, 2020 (September 30, 2019 – 2,760,000) in the dilutive effect of share-options calculations as these share-options were anti-dilutive.

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)). The dividend was suspended effective April 1, 2020.

The Company provides an equity settled 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 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 September 30, 2020 and changes during the year ended are presented below:

	Number of options	Weighted average exercise price
At December 31, 2019	1,945,000	\$10.13
Options granted	1,173,200	2.84
Options forfeited	(348,500)	7.94
Options expired	(27,000)	19.30
At September 30, 2020	2,742,700	\$7.20

The following table summarizes information about options outstanding and exercisable as at September 30, 2020:

Range of exercise prices	Options outstanding			Options exercisable		
	Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable	Weighted-average exercise price	
\$ 1.00 - \$ 10.00	1,961,700	1.3 years	\$ 4.18	796,000	\$ 5.93	
10.01 - 15.00	748,000	0.1 years	14.55	744,000	14.56	
15.01 - 25.00	33,000	1.1 years	19.94	23,000	20.23	
\$ 1.00 - \$ 25.00	2,742,700	0.9 years	\$ 7.20	1,563,000	\$ 10.25	

The Company records compensation expense over the vesting period, which ranges between one and three years, based on the fair value of options granted to directors, officers and employees. During the nine months ended September 30, 2020 the Company granted 1,173,200 options with an estimated fair value of \$774,000 or \$0.66 per option using the Black-Scholes option pricing model with the following key assumptions:

	September 30, 2020
Weighted-average risk free interest rate (%) ⁽¹⁾	1.29
Weighted-average expected life (years)	1.6
Weighted-average volatility (%) ⁽²⁾	59.34
Forfeiture rate (%)	7.12
Weighted average dividend yield (%)	4.70

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

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

9. OIL AND GAS SALES, NET OF ROYALTIES

(\$ 000s)	Three months		Nine months	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Oil and gas sales				
Crude oil	22,526	43,121	71,266	134,699
Natural gas liquids	1,889	2,085	4,856	7,020
Natural gas	4,740	2,114	13,759	10,287
	29,155	47,320	89,881	152,006
Less royalties:				
Crown	(656)	(2,563)	(3,191)	(6,450)
Freehold, gross overriding royalties and other	(933)	(1,632)	(2,673)	(5,274)
	(1,589)	(4,195)	(5,864)	(11,724)
Oil and gas sales, net of royalties	27,566	43,125	84,017	140,282

10. FINANCIAL RISK MANAGEMENT

Financial Risk Factors

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. Certain financial risks have been increased due to the COVID-19 outbreak that has created abnormal volatility in spot prices and decreased demand for oil.

Liquidity Risk Management

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. While the decrease in commodity prices as a result of the impacts of COVID-19 pandemic and the recent actions from OPEC+ on commodity pricing will negatively impact the Company's financial performance and position, the Company continues to retain available committed borrowing capacity that provides the Company with financial flexibility and the ability to meet ongoing obligations as they become due.

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 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.

Credit risk

Credit risk is the risk that a contracting party will not complete its obligations under a financial instrument and cause the Company to incur a financial loss. The Company is exposed to credit risk on all financial assets included on the statement of financial position. To help mitigate this risk:

- The Company only enters into material agreements with credit worthy counterparties. These include major oil and gas companies or major Canadian chartered banks; and
- Agreements for product sales are primarily on 30-day renewal terms. Of the \$9,766,000 accounts receivable balance at September 30, 2020 (December 31, 2019 - \$21,764,000) over 91 percent (2019 – 75 percent) relates to product sales or risk management contracts with national and international banks and oil and gas companies.

On a quarterly basis, the Company assesses if there has been any impairment of the financial assets of the Company. During the nine months ended September 30, 2020, there was no material impairment provision required on any of the financial assets of the Company. The Company does have a credit risk exposure as the majority of the Company's accounts receivable are with counterparties having similar characteristics. However, payments from the Company's largest accounts receivable counterparties have consistently been received within 30 days and the sales agreements with these parties are cancellable with 30 days' notice if payments are not received. At September 30, 2020, approximately \$131,000 or one percent of the Company's total accounts receivable are aged over 90 days and considered past due (December 31, 2019 - \$276,000 or one percent). The majority of these accounts are due from various joint venture partners. The Company actively monitors past due accounts and takes the necessary actions to expedite collection, which can include withholding production or netting payables when the accounts are with joint venture partners. Should the Company determine that the ultimate collection of a receivable is in doubt, it will provide the necessary provision in its allowance for doubtful accounts with a corresponding charge to earnings. If the Company subsequently determines an account is uncollectable, the account is written off with a corresponding charge to the allowance account. The Company's allowance for doubtful accounts balance at September 30, 2020 is \$1,240,000 (December 31, 2019 - \$1,232,000) with the expense being included in general and administrative expenses. There were no material accounts written off during the period. The maximum exposure to credit risk is represented by the carrying amounts of accounts receivable. There are no material financial assets that the Company considers past due.

Capital Risk Management

The Company's objectives when managing capital, which the Company defines to include shareholders' equity, debt and working capital balances, are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns to its shareholders and benefits for other stakeholders and to maintain a capital structure that provides a low cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the current debt structure and/or issue common shares.

The Company monitors capital based on the ratio of net debt (total debt adjusted for working capital) to cash flow from operating activities. This ratio is calculated using each quarter end net debt divided by the preceding twelve months' cash flow. Management believes that a net debt level as high as one and a half year's cash flow is an optimal level to allow it to take advantage of future acquisition opportunities. During the current nine-month period the Company had a net debt to cash flow level of 5.5:1 compared to 3.8:1 as at September 30, 2019. The increase in net debt to cash flow ratio is primarily due to a \$26,835,000 decrease in the twelve month trailing cash flow due to a decrease in commodity prices. In order to further reduce net debt or minimize the effects of decreased cash flows due to the COVID-19 pandemic, the Company suspended capital spending in Q2 2020 along with its monthly dividend of \$0.01 per share starting with the April 2020 dividend. Bonterra has also optimized production costs primarily by voluntarily shutting-in its low economic wells during this period of repressed commodity prices and applying for government assistance programs where applicable.

Section (a) of this note provides the Company's debt to cash flow from operations.

Section (b) addresses in more detail the key financial risk factors that arise from the Company's activities including its policies for managing these risks.

a) Net debt to cash flow ratio

The net debt and cash flow amounts are as follows:

(\$ 000s)	September 30, 2020	December 31, 2019
Bank debt ⁽¹⁾	274,038	273,065
Current liabilities	37,572	46,220
Current assets	(16,442)	(26,475)
Net debt	295,168	292,810
Cash flow from operations	54,039	81,132
Net debt to cash flow ratio	5.5	3.6

⁽¹⁾ Bank debt is classified as a current liability as at September 30, 2020.

b) Risks and mitigation

Market risk is the risk that the fair value or future cash flow of the Company's financial instruments will fluctuate because of changes in market prices. Components of market risk to which the Company is exposed are discussed below.

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. As of September 30, 2020, the Company has the following physical delivery sales contracts in place.

Product	Type of contract	Volume	Term	Contract price
Gas	Fixed Price - AECO ⁽¹⁾	2,500 GJ/day	Apr 1 to Oct 31, 2020	\$1.55 CAD/GJ
Gas	Fixed Price - AECO ⁽¹⁾	2,500 GJ/day	Apr 1 to Oct 31, 2020	\$1.64 CAD/GJ
Gas	Fixed Price - AECO ⁽¹⁾	5,000 GJ/day	Nov 1 to Dec 31, 2020	\$3.08 CAD/GJ

⁽¹⁾ "AECO" refers to Alberta Energy Company; a grade or heating content of natural gas used as benchmark pricing in Alberta, Canada.

Subsequent to September 30, 2020, the Company entered into the following physical delivery sales contracts.

Product	Type of contract	Volume	Term	Contract price
Gas	Fixed Price - AECO	3,000 GJ/day	Nov 1 to Oct 31, 2021	\$2.79 CAD/GJ
Oil	Fixed price - MSW Stream index ⁽²⁾	500 BBL/day	Nov 1 to Nov 30, 2020	\$54.41 CAD/BBL
Oil	Fixed price - MSW Stream index ⁽²⁾	500 BBL/day	Dec 1 to Dec 31, 2020	\$47.65 CAD/BBL

⁽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.

Risk Management Contracts

(\$ 000s)	Three months		Nine months	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Risk management contracts				
Realized gain (loss)	(1,524)	-	941	-
Unrealized gain (loss)	1,141	(58)	(13)	(58)
	(383)	(58)	928	(58)

The Company also enters into financial derivative instruments or risk management contracts to manage commodity price risk. These contracts are not considered normal executory sales contracts and are recorded at fair value in the financial statements. The Company has entered into the following risk management contracts during the nine months ended September 30, 2020.

Product	Type of contract	Volume	Term	Contract price
Oil	Fixed price - MSW Stream index	500 BBL/day	Jan 1 to Mar 31, 2020	\$67.75 CAD/BBL
Oil	Fixed price - MSW Stream index	500 BBL/day	Jan 1 to Mar 31, 2020	\$69.60 CAD/BBL
Oil	Fixed price - MSW Stream index	500 BBL/day	Apr 1 to June 30, 2020	\$59.50 CAD/BBL
Oil	Fixed price - MSW Stream index	500 BBL/day	May 1 to June 30, 2020	\$19.25 CAD/BBL
Oil	Fixed price - MSW Stream index	500 BBL/day	July 1 to Sept 30, 2020	\$28.35 CAD/BBL
Oil	Fixed price - MSW Stream index	500 BBL/day	July 1 to Sept 30, 2020	\$39.75 CAD/BBL
Oil	Fixed price - MSW Stream index	500 BBL/day	Oct 1 to Dec 31, 2020	\$44.05 CAD/BBL
Oil	Fixed price - MSW Stream index	500 BBL/day	Aug 1 to Dec 31, 2020	\$45.95 CAD/BBL
Oil	Fixed price - MSW Stream index	500 BBL/day	Sept 1 to Dec 31, 2020	\$49.00 CAD/BBL