



For the three and nine
months ended
September 30, 2021

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

BONTERRA ENERGY REPORTS THIRD QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 2021 FINANCIAL AND OPERATING RESULTS

HIGHLIGHTS

As at and for the periods ended (\$ 000s except for \$ per share and \$ per BOE)	Three months ended		Nine months ended		
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020	
FINANCIAL					
Revenue - realized oil and gas sales	64,457	29,155	172,414	89,881	
Funds flow ⁽¹⁾	28,658	6,266	68,355	25,121	
Per share - basic	0.85	0.19	2.03	0.75	
Per share - diluted	0.83	0.19	1.98	0.75	
Cash flow from operations	24,616	6,370	58,235	33,272	
Per share - basic	0.73	0.19	1.73	1.00	
Per share - diluted	0.71	0.19	1.69	1.00	
Net earnings (loss) ⁽²⁾	7,296	(5,211)	162,966	(295,818)	
Per share - basic	0.22	(0.16)	4.84	(8.86)	
Per share - diluted	0.21	(0.16)	4.72	(8.87)	
Capital expenditures	18,578	2,819	49,646	24,664	
Total assets			939,835	722,910	
Net debt ⁽³⁾			307,729	295,168	
Working capital deficiency			260,976	295,168	
Long-term debt			46,753	-	
Shareholders' equity			361,590	207,325	
OPERATIONS					
Light oil	-barrels (bbl) per day	6,948	5,355	7,051	5,987
	-average price (\$ per bbl)	78.42	45.73	70.68	43.45
NGLs	-bbl per day	928	1,064	983	1,056
	-average price (\$ per bbl)	48.86	19.29	39.82	16.78
Conventional natural gas	- MCF per day	27,995	21,510	26,131	22,169
	- average price (\$ per MCF)	3.94	2.40	3.60	2.27
Total barrels of oil equivalent per day (BOE) ⁽⁴⁾		12,542	10,004	12,389	10,737

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

⁽²⁾ In the first quarter of 2020 the Company recorded a \$331,678,000 impairment provision less a \$54,107,000 deferred income tax recovery related to its Alberta CGU's oil and gas assets due to the impact of COVID-19 effect on the forward benchmark prices for crude oil. With stronger forward prices in Q2 2021, the Company recorded a \$203,197,000 impairment reversal on its Alberta CGU's oil and gas assets less \$47,149,000 deferred income tax expense.

⁽³⁾ Net debt is not a recognized measure under IFRS. The Company defines net debt as current liabilities less current assets plus long-term subordinated debt.

⁽⁴⁾ BOE may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 MCF: 1 bbl is based on an energy conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

REPORT TO SHAREHOLDERS

Bonterra Energy Corp. (Bonterra or the Company) is pleased to present our third quarter 2021 financial and operating results, selected highlights from which are provided below. Readers are encouraged to review in conjunction with the Company's full Q3 2021 report which has been filed on SEDAR and is available on Bonterra's website.

Q3 2021 FINANCIAL & OPERATING SNAPSHOT

- Averaged 12,542 BOE per day of production in Q3 2021, 25 percent higher than in Q3 2020, and 12,389 BOE per day in the first nine months of 2021, a 15 percent increase over the comparative period the prior year.
 - Volumes in Q3 2021 were impacted by third-party midstream issues, including a fire at an NGL fractionation plant and other downtime at downstream pipelines and facilities, which led to approximately 650 BOE per day being shut-in during the period.
 - These volumes are expected to be brought back on-stream in Q4 2021, along with approximately 275 BOE per day of production that had previously been shut-in due to weak prices. Bonterra anticipates the impact of these incremental volumes will contribute meaningfully to higher production in the fourth quarter of 2021, with average volumes in the month of October 2021 averaging approximately 14,000 BOE per day¹.
- Realized oil and gas sales increased 121 percent over Q3 2020 to total \$64.5 million in Q3 2021, and in the first nine months of 2021, increased by 92 percent over the same period in 2020 with increases primarily driven by higher realized crude oil prices and growing production volumes.
- Generated funds flow² of \$28.7 million (\$0.83 per fully diluted share) in Q3 2021, a 356 percent increase from \$6.3 million (\$0.19 per fully diluted share) in Q3 2020 while funds flow² in the first nine months of 2021 totaled \$68.4 million (\$1.98 per fully diluted share) representing an increase of 172 percent from the same period of 2020.
- Production costs per unit were reduced to \$14.45 per BOE in Q3 2021, four percent lower than the preceding quarter.
- Drilling, completion and equipping costs in the first nine months of 2021 decreased by approximately 29 percent year-over-year to average \$1.5 million per well.
- Field netbacks² averaged \$31.03 per BOE in Q3 2021 and \$27.80 per BOE in the first nine months of 2021, representing increases of 107 percent and 92 percent over the comparative periods of 2020, respectively, with the increases primarily reflecting significantly higher per unit revenue offset by realized losses on risk management contracts and increased per unit royalty expenses.
- Capital expenditures totaled \$49.6 million in the first nine months of 2021 including \$18.6 million invested in Q3 2021. Of the first nine months' capital, \$40.5 million was directed to the drilling of 29 gross (27.4 net) wells along with the completion, equip and tie-in of 29 gross (27.2 net) wells, with four of the completed and equipped wells having been drilled in 2020. Of the wells drilled in 2021, 25 have been placed on production as of September 30, 2021. An additional \$9.1 million was spent primarily on related infrastructure and recompletions.
- Net debt² totaled \$307.7 million as at September 30, 2021, a \$7.8 million improvement from year-end 2020, reflecting the effects of improving commodity prices and the more active capital program which has restored production levels to pre-COVID-19 levels. Subsequent to the quarter and in conjunction with the previously announced brokered private placement debt and warrant financings, the Company successfully restructured our bank debt to be a fully conforming revolving credit facility of \$220 million, eliminating the non-revolving term loan of \$65 million. The first of these financings closed on October 20, 2021, with the second anticipated to close on or about November 10, 2021.

¹ October 2021 volumes comprised of 7,980 bbl/d light and medium crude oil, 1,120 bbl/d NGLs and 29,400 mcf/d of conventional natural gas.

² "Funds Flow", "Field Netback" and "Net Debt" are not recognized measures under IFRS. See "Cautionary Statements" below.

The Company has continued to benefit from further increases in crude oil and natural gas prices which have now generated nearly \$19 million of funds flow in excess of capital expenditures during the first nine months of the year, attributable to our low decline rate and disciplined approach to capital allocation. During the third quarter of 2021, Bonterra realized average oil prices of \$78.42 per bbl, average NGL prices of \$48.86 per bbl, and average natural gas prices of \$3.94 per mcf. These improved revenues contributed to a 12 percent and 24 percent improvement of field and cash netbacks to \$31.03 per BOE and \$24.84 per BOE, respectively, compared to the prior quarter.

With spring breakup completed, the Company resumed a pace of capital investment during the quarter designed to target sustainable production growth, drilling 13 gross (11.5 net) wells and placing on production nine gross (7.5 net) wells.

Bonterra also continued to reduce our decommissioning liabilities with support of the Alberta Site Rehabilitation Program ("SRP"). By the end of the third quarter, the Company had abandoned 189.4 net wells and decommissioned 2.0 net battery sites during the first nine months of the year, having spent \$3.1 million of a \$5.1 million commitment for the 2021 fiscal year. As we continue to execute our abandonment program through the remainder of 2021 and 2022, a further 167.8 net wells that have no deemed future potential are forecast to be abandoned. Bonterra continuously reviews our inactive well inventory for future potential to determine if a well bore should be reactivated, repurposed, or abandoned.

During the third quarter of 2021, the Company appointed Ms. Stacey McDonald to our Board of Directors, effective August 16, 2021. Ms. McDonald will assume the role of Chair of the Reserves Committee, while serving on the Audit, Compensation, and Governance and Nominating Committees. Ms. McDonald's 16 years of energy and finance experience will bring valuable insights and contributions to the Board.

OUTLOOK

The Company expects that shut-ins related to the third-party fractionation plant fire and downstream compression issues will be resolved in the fourth quarter of 2021, returning 650 BOE per day of production which was shut-in during the third quarter of 2021. A further 275 BOE per day of voluntary shut-in production volumes are expected to be reactivated during the fourth quarter.

In Q4 2021, the Company expects to drill 8 gross (8.0 net) operated wells, of which 2 gross (2.0 net) wells will be completed and placed on production to further contribute to quarterly volumes. The remaining 6 wells are forecast to begin production in Q1 2022. The Company also plans to place on production an additional 4 gross (4.0 net) wells in Q4 2021 that were drilled in Q3 2021.

Even with the shut-ins experienced during the third quarter, the Company is pleased to reiterate our previous 2021 average annual production guidance range of 12,800 to 13,200 BOE per day³, supported by average production of approximately 14,000 BOE per day⁴ in October 2021. In the near-term, Bonterra anticipates realizing enhanced benefit from new volumes being brought on-stream into improved commodity prices.

Bonterra plans to announce the Board approved 2022 guidance before the end of December 2021. The 2022 preliminary budget estimates production will be in excess of the Company's 2021 average annual guidance range. Assuming this level of production and current forward strip pricing, Bonterra anticipates a meaningful deleveraging of the balance sheet which would result in an improved debt to cash flow ratio between 1.0x and 1.5x by the end of 2022.

As part of the Company's ongoing efforts to diversify commodity prices and protect future cash flows, Bonterra has put in place physical delivery sales and risk management contracts to the end of September 30, 2022, details of which are included in Note 12 to the third quarter 2021 financial statements. With approximately 30 percent of forecast volumes hedged, the Company can continue to benefit from potential commodity price improvements while mitigating market volatility and locking-in economics.

³ 2021 annual forecast volumes comprised of 7,050 to 7,400 bbl/d light and medium crude oil, 1,390 to 1,400 bbl/d NGLs and 26,100 to 26,500 mcf/d conventional natural gas.

⁴ October 2021 volumes comprised of 7,980 bbl/d light and medium crude oil, 1,120 bbl/d NGLs and 29,400 mcf/d of conventional natural gas.

FINANCING UPDATE

Subsequent to the quarter end, and as previously announced on October 20, 2021, Bonterra successfully closed a brokered private placement debt and warrant financing (the “Initial Offering”), enhancing our financial flexibility and achieving our goal of restructuring all bank debt to a fully conforming revolving credit facility. The combination of senior unsecured debentures and common share purchase warrants provided gross proceeds of \$32 million. Concurrent with the closing of the Initial Offering, Bonterra issued a separate offering, which was subsequently upsized, raising an additional \$7.5 million on the same terms and conditions as the Initial Offering. The follow-on offer is expected to close on or about November 10, 2021.

In concert with the financings, the Company amended the terms of our credit facility to a \$195 million syndicated revolving credit facility and a \$25 million non-syndicated revolving facility, representing an elimination of the previous \$65 million non-revolving term loan. The amended facility has \$10 million step-downs at December 31, 2021 and March 31, 2022 prior to the next redetermination date before May 31, 2022, and has a maturity date of November 30, 2022.

Management believes the Company is well positioned to continue reducing bank debt and strengthening the balance sheet, a commitment that has been bolstered by a strengthening commodity price environment. The Company plans to generate profitable growth through this period of improving oil and natural gas markets by prudently developing our high-quality, light oil weighted asset base and directing excess funds flow to a combination of debt repayment plus modest growth. In addition, the Company continues to prioritize environmental, social and governance initiatives, and is committed to employing local services, being a key economic contributor to rural and surrounding communities located within central Alberta, upholding a responsible abandonment and reclamation program, and maintaining rigorous safety measures.



George F. Fink
Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following report dated November 9, 2021 is a review of the operations and current financial position for the three and nine months ended September 30, 2021 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, 2020 presented under International Financial Reporting Standards (IFRS), as well as Bonterra's Annual Information Form ("AIF"), each of which is filed on SEDAR at www.sedar.com.

Use of Non-IFRS Financial Measures

Throughout this Management's Discussion and Analysis (MD&A) the Company uses the terms "field netback", "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 cash and field 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" is the benchmark price for natural gas 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)	2021				2020		
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial							
Revenue - oil and gas sales	64,457	59,163	48,794	31,761	29,155	22,171	38,555
Cash flow from operations	24,616	18,874	14,745	(1,199)	6,370	4,429	22,473
Per share - basic	0.73	0.56	0.44	(0.04)	0.19	0.13	0.67
Per share - diluted	0.71	0.55	0.43	(0.04)	0.19	0.13	0.67
Net earnings (loss) ⁽¹⁾	7,296	157,354	(1,684)	(11,071)	(5,211)	(5,954)	(284,653)
Per share - basic	0.22	4.68	(0.05)	(0.33)	(0.16)	(0.18)	(8.53)
Per share - diluted	0.21	4.55	(0.05)	(0.33)	(0.16)	(0.18)	(8.53)
Capital expenditures	18,578	7,607	23,461	19,064	2,819	104	21,741
Total assets	939,835	948,260	748,543	731,859	722,910	732,462	743,533
Net debt	307,729	319,310	328,506	315,573	295,168	299,445	300,688
Shareholders' equity	361,590	353,431	195,393	196,633	207,325	212,342	218,211
Operations							
Light oil (barrels per day)	6,948	7,370	6,834	5,371	5,355	5,553	7,058
NGLs (barrels per day)	928	996	1,025	960	1,064	1,104	999
Conventional natural gas (MCF per day)	27,995	26,057	24,301	22,560	21,510	21,142	23,864
Total BOE per day	12,542	12,709	11,909	10,091	10,004	10,181	12,034

⁽¹⁾ In the first quarter of 2020 the Company recorded a \$331,678,000 impairment provision less a \$54,107,000 deferred income tax recovery related to its Alberta CGU's oil and gas assets due to the impact of COVID-19 on forward benchmark prices for crude oil. With stronger forward prices in Q2 2021, the Company recorded a \$203,197,000 impairment reversal on its Alberta CGU's oil and gas assets less \$47,149,000 deferred income tax expense.

As at and for the periods ended (\$ 000s except \$ per share)	2019			
	Q4	Q3	Q2	Q1
Financial				
Revenue - oil and gas sales	50,743	47,320	54,852	49,834
Cash flow from operations	20,767	19,774	25,468	15,123
Per share - basic and diluted	0.62	0.59	0.76	0.45
Net earnings (loss)	(1,389)	(1,276)	23,131	1,457
Per share - basic diluted	(0.04)	(0.04)	0.69	0.04
Capital expenditures	5,678	17,845	9,042	21,062
Total assets	1,087,817	1,133,137	1,123,513	1,124,043
Net debt	292,810	308,069	310,783	326,733
Shareholders' equity	503,949	506,011	507,659	484,980
Operations				
Light oil (barrels per day)	7,255	7,157	7,746	7,081
NGLs (barrels per day)	1,016	1,009	970	949
Conventional natural gas (MCF per day)	24,697	23,820	23,750	23,938
Total BOE per day	12,387	12,136	12,674	12,020

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.

	Q3-2021	Q2-2021	Q1-2021	Q4-2020	Q3-2020	Q2-2020	Q1-2020	Q4-2019
Crude oil								
WTI (U.S.\$/bbl)	70.56	66.07	57.84	42.66	40.93	27.85	46.17	56.96
WTI to MSW Stream Index								
Differential (U.S.\$/bbl) ⁽¹⁾	(4.08)	(3.11)	(5.24)	(4.07)	(3.51)	(6.14)	(7.58)	(5.37)
Foreign exchange								
U.S.\$ to Cdn\$	1.2602	1.2280	1.2663	1.3031	1.3316	1.3860	1.3445	1.3201
Bonterra average realized								
oil price (Cdn\$/bbl)	78.42	71.49	61.76	47.16	45.73	33.31	49.67	63.37
Natural gas								
AECO (Cdn\$/mcf)	3.58	3.08	3.14	2.63	2.23	1.98	2.02	2.46
Bonterra average realized								
gas price (Cdn\$/mcf)	3.94	3.37	3.44	3.02	2.40	2.14	2.26	2.71

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

Bonterra's average realized commodity prices can be impacted by numerous events or factors. Most impactful has been the ongoing effects of the COVID-19 pandemic. Since the onset of COVID-19 in early 2020, volatility in WTI benchmark pricing has been significant. WTI benchmark prices for the third quarter of 2021 increased by over US\$4 per barrel compared to the second quarter of 2021. The increase was driven by continuing improvements in real demand, coupled with ongoing supply discipline from both OPEC+ and US shale producers. These factors have led to significant destocking of global crude and product inventories, which continues to support a higher price environment. It is still highly uncertain as to where supply and demand levels will be through the remainder of 2021 and into 2022 and as such, it is likely that pricing volatility will continue.

Canadian crude oil differentials were somewhat wider in the third quarter of 2021 compared to the previous quarter. Increasing Canadian production levels, and stagnant crude-by-rail export volumes led to increased Canadian storage levels and subsequent pressure on Canadian crude differentials. At the end of the quarter, the long-anticipated Enbridge Line 3 expansion project came online. This project may lead to improved differentials in the near term. Looking longer term, the Trans Mountain Expansion is expected to increase Canada's export capabilities, and like Line 3, is anticipated to have a positive effect on the movement and pricing of Canadian barrels. Renewed concerns around the fate of Enbridge's Line 5 crossing into Michigan is a factor that could have a negative effect on the pricing differential between WTI and MSW or Edmonton Par pricing.

The AECO benchmark price for natural gas was up more than 15 percent in the third quarter of 2021 relative to the previous quarter. The AECO benchmark price increase happened despite significant maintenance during the quarter on TC Energy Corporation's NGTL pipeline system. Concern regarding low natural gas inventories around the globe has driven many natural gas commodity benchmark prices to multi year highs, and the AECO benchmark price benefited from this concern in Q3 2021. Forecast pricing through the remainder of 2021 and into 2022 continues to reflect an improved AECO market. Planned facility additions for the NGTL system in the near term and progress by LNG Canada for the Kitimat liquefied natural gas export facility over the longer term may continue to support and improve market sentiment towards western Canadian-based natural gas producers.

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 2021⁽¹⁾

Impact on cash flow	Change (\$)	\$000s	\$ per share ⁽²⁾
Realized crude oil price (\$/bbl)	1.00	2,485	0.07
Realized natural gas price (\$/mcf)	0.10	909	0.03
U.S.\$ to Canadian \$ exchange rate	0.01	1,665	0.05

⁽¹⁾ This analysis uses current royalty rates, annualized estimated average production of 13,000 BOE per day and no changes in working capital.

⁽²⁾ Based on annualized basic weighted average shares outstanding of 33,628,946.

Business Overview, Strategy and Key Performance Drivers

Subsequent to Q3 2021, the Company successfully closed a private placement debt financing, thereby achieving its goal of restructuring all bank debt to a fully conforming revolving credit facility and converting its current debt of the subordinated promissory note and due-to-related party under the same terms as the private placement. The restructuring of the current debt and moving to a fully conforming borrowing base facility of \$220 million represents the complete elimination of the non-revolving term loan of \$65 million, leading to significantly improved financial flexibility. With the balance sheet restructuring and improved commodity prices, the Company has established a stronger position from which to execute on its business plan through the balance of 2021 and 2022. Bonterra intends to continue investing capital to support further generation of free cash flow that can be allocated to incremental growth initiatives while optimizing its capital structure, balance sheet and leverage metrics. As a result of the Business Development Bank of Canada (“BDC”) Term Loan that was successfully obtained in November 2020, Bonterra has been able to return to pre-COVID-19 production levels and take advantage of rising commodity prices to maximize cash flow. The Company averaged 12,389 BOE per day of production for the first nine months of 2021, an increase of 1,652 BOE per day, or fifteen percent, from the same period in 2020, and averaged 12,542 BOE per day through the third quarter. Bonterra believes the Company has established a strong position to continue pursuing profitable development of its high-quality, light oil weighted asset base and can continue to act swiftly and prudently to strategically manage changes in the Company’s financial position. Bonterra remains committed to preserving the value of its crude oil reserves should future events adversely impact crude oil prices.

The Company achieved many milestones during the first nine months of 2021, highlighted by a reduction of approximately 29 percent in per well drilling, completion, and equipping costs compared to the same period a year ago. Bonterra invested a total of \$49.6 million in the first nine months of 2021, or approximately 67 percent of the lower end of its annual capital budget. Of the total capital invested, \$40.5 million was directed to the drilling of 29 gross (27.4 net) wells and the completing, equipping, tying-in and placing on production of 29 gross (27.2 net) wells, with four of the completed and equipped wells having been drilled late in 2020. Included in the total capital program of \$49.6 million was approximately \$9.1 million that was directed to related infrastructure and recompletions. The Company anticipates drilling 8 gross (8.0 net) operated wells, of which 2 gross (2.0 net) wells will be completed and placed on production in Q4 2021. The Company will place the remaining 6 wells on production in Q1 2022. The Company will also place on production 4 gross (4.0 net) wells in Q4 2021 that were drilled in Q3 2021.

Bonterra successfully abandoned 189.4 net wells and decommissioned 2.0 net battery sites during the first nine months of 2021 with support from the Alberta Site Rehabilitation Program (“SRP”). As the Company continues to execute its abandonment program through the remainder of 2021 and 2022, a further 167.8 net wells that have no deemed future potential are forecast to be abandoned. Bonterra continuously reviews its inactive well inventory for future potential to determine if a well bore should be reactivated, repurposed, or abandoned.

To further support stability while facing continued market volatility, and as part of Bonterra’s ongoing efforts to diversify commodity pricing and to protect future cash flows, the Company has executed physical delivery sales and risk management contracts to the end of September 30, 2022. For the remainder of 2021, Bonterra has secured a WTI price between \$36.00 USD to \$50.50 USD per bbl on 2,250 bbls per day, with a WTI to Edmonton par differential average of \$7.45 on 2,000 bbls per day. During the first nine months of 2022, Bonterra has secured a WTI price between \$48.00 USD to \$81.60 USD per bbl on 2,381 bbls per day, with a WTI to Edmonton par differential average of \$6.70 on 1,885 bbls per day. In addition, the Company has secured a natural gas price between \$2.00 to \$3.18 on

9,613 GJ per day for the next twelve months. Current hedging represents approximately 30 percent of Bonterra's expected crude oil and natural gas production.

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'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,		June 30,		September 30,		September 30,		September 30,	
	2021		2021		2020		2021		2020	
	Gross ⁽¹⁾	Net ⁽²⁾								
Crude oil horizontal-operated	13	11.5	3	3.0	3	3.0	29	27.4	11	11.0
Crude oil horizontal-non-operated	-	-	-	-	-	-	-	-	-	-
Total	13	11.5	3	3.0	3	3.0	29	27.4	11	11.0
Success rate	100%		100%		100%		100%		91%	

⁽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 2021, the Company drilled 29 gross (27.4 net) operated wells and completed, tied-in and placed on production 29 gross (27.2 net) operated wells. Four of the wells that were completed and tied-in during Q1 2021 were drilled in late 2020.

Production

	Three months ended						Nine months ended		
	September 30,		June 30,		September 30,		September 30,		
	2021		2021		2020		2021		
Crude oil (barrels per day)	6,948		7,370		5,355		7,051		5,987
NGLs (barrels per day)	928		996		1,064		983		1,056
Natural gas (MCF per day)	27,995		26,057		21,510		26,131		22,169
Average BOE per day	12,542		12,709		10,004		12,389		10,737

The Company averaged 12,389 BOE per day of production in the first nine months of 2021, compared to 10,737 BOE per day for the same period in 2020, an increase of 1,652 BOE per day or fifteen percent. The increase in production is largely due to the Company's drilling program re-commencing in the fourth quarter of 2020 along with the reactivation of down wells that were voluntarily shut-in due to low commodity prices from the onset of the COVID-19 pandemic. The Company's capital program was suspended from April 2020 until late in the fourth quarter of 2020, and with the support of the BDC Term Loan, Bonterra has exceeded Q1 2020 (pre COVID-19) production levels. The Company expects to be within its 2021 annual production guidance of 12,800 to 13,200 BOE per day.

Quarter-over-quarter production decreased, primarily due to shut-in production of approximately 650 BOE per day. The shut-in production was due to a fire at a third-party NGL fractionation plant and other downtime at downstream third-party pipelines and facilities, which is expected to be resolved in Q4 2021. With the rise in commodity prices, the Company also expects to reactivate approximately 275 BOE per day of voluntary shut-in production in the fourth quarter of 2021.

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, 2021	June 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Production volumes (BOE)	1,153,874	1,156,521	920,387	3,382,231	2,942,037
Gross production revenue	55.86	51.16	31.68	50.98	30.55
Risk management contracts realized gain (loss)	(4.21)	(3.38)	(1.66)	(3.17)	0.32
Royalties	(6.17)	(5.21)	(1.73)	(5.01)	(1.99)
Production costs	(14.45)	(14.98)	(13.33)	(15.00)	(14.43)
Field netback	31.03	27.59	14.96	27.80	14.45
General and administrative	(1.74)	(1.74)	(3.07)	(2.04)	(2.05)
Interest and other	(4.45)	(5.87)	(5.08)	(5.55)	(3.86)
Cash netback	24.84	19.98	6.81	20.21	8.54

Cash netbacks in the first nine months of 2021 compared to the same period in 2020 increased primarily due to higher realized commodity prices. This was partially offset by increased royalties, interest costs and realized losses on risk management contracts. Quarter-over-quarter cash netbacks increased primarily due to further commodity price recovery offset by an increase in royalties and risk management contract losses.

Oil and Gas Sales

Revenue - oil and gas sales (\$ 000s)	Three months ended			Nine months ended	
	September 30, 2021	June 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Crude oil	50,127	47,948	22,526	136,061	71,266
NGL	4,172	3,225	1,889	10,682	4,856
Natural gas	10,158	7,990	4,740	25,671	13,759
	64,457	59,163	29,155	172,414	89,881
Average realized prices:					
Crude oil (\$ per barrel)	78.42	71.49	45.73	70.68	43.45
NGLs (\$ per barrel)	48.86	35.59	19.29	39.82	16.78
Natural gas (\$ per MCF)	3.94	3.37	2.40	3.60	2.27
Average (\$ per BOE)	55.86	51.16	31.68	50.98	30.55
Average BOE per day	12,542	12,709	10,004	12,389	10,737

Revenue from oil and gas sales in the first nine months of 2021 increased by \$82,533,000, or 92 percent, compared to the same period in 2020. This increase was primarily driven by a 63 percent increase in Bonterra's realized crude oil prices and a fifteen percent increase in production. Quarter-over-quarter, oil and gas sales increased as the Company benefited from a further oil price recovery while natural gas prices also increased by seventeen percent quarter-over-quarter.

Bonterra's product split on a revenue basis was weighted approximately 85 percent to crude oil and NGLs during the first nine months of 2021.

Royalties

(\$ 000s)	Three months ended			Nine months ended	
	September 30, 2021	June 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Crown royalties	4,193	3,470	656	9,525	3,191
Freehold, gross overriding and other royalties	2,926	2,560	933	7,410	2,673
Total royalties	7,119	6,030	1,589	16,935	5,864
Crown royalties - percentage of revenue	6.5	5.9	2.3	5.5	3.6
Freehold, gross overriding and other royalties - percentage of revenue	4.5	4.3	3.2	4.3	3.0
Royalties - percentage of revenue	11.0	10.2	5.5	9.8	6.6
Royalties \$ per BOE	6.17	5.21	1.73	5.01	1.99

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 nine months ended September 30, 2021 increased by \$3.02 per BOE and quarter-over-quarter increased by \$0.96 per BOE. The increase in both periods was primarily the result of an increase in commodity prices.

Production Costs

(\$ 000s except \$ per BOE)	Three months ended			Nine months ended	
	September 30, 2021	June 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Production costs	16,676	17,327	12,274	50,719	42,461
\$ per BOE	14.45	14.98	13.33	15.00	14.43

Production costs for the first nine months of 2021 increased from the same period in 2020 primarily due to increased maintenance costs with more well reactivations from the prior year, an increase in power costs from higher energy rates and an increase in Alberta government levies as some amounts were waived in 2020.

Production costs for Q3 2021 decreased from Q2 2021 on per BOE basis. The decrease was primarily due to increased maintenance costs from spring break up and facility turnarounds and increased water trucking costs on flush production from new wells in Q2 2021.

Other Income

(\$ 000s)	Three months ended			Nine months ended	
	September 30, 2021	June 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Investment income	5	20	19	29	38
Administrative income	124	104	54	292	140
Deferred consideration	321	321	201	928	675
Government grant in-kind	1,470	1,339	-	4,892	-
Realized gain (loss) on risk management contracts	(4,856)	(3,910)	(1,524)	(10,732)	941
Unrealized gain (loss) on risk management contracts	1,763	(5,070)	1,141	(8,157)	(13)
	(1,173)	(7,196)	(109)	(12,748)	1,781

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 on September 30, 2021 was \$909,000 (September 30, 2020 - \$242,000). There were no dispositions during the period ended September 30, 2021 or September 30, 2020. 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.

The Government of Alberta's SRP provides grant funding through service providers to abandon or remediate oil and gas sites. The Company derecognized approximately \$4,892,000 of asset retirement obligations as an in-kind grant for the first nine months of 2021 (September 30, 2020 - \$nil). The benefit of the in-kind grant is recognized through other income.

To minimize commodity price risk on crude oil and natural gas sales, Bonterra has entered into financial derivatives. The financial derivatives outstanding are for the period from October 1, 2021 to September 30, 2022 and are for a total of 606,500 barrels of light crude oil (approximately 1,662 barrels of oil per day for the next twelve months) at fixed WTI prices ranging from \$36.00 USD to \$81.60 USD per barrel, with a fixed differential from WTI to Edmonton Par prices for 493,500 barrels of oil (approximately 1,325 barrels of oil per day) at prices ranging from approximately \$5.80 to \$8.10 per barrel. Bonterra also fixed 1,800 GJ per day of natural gas for the remainder of 2021 at \$2.24 per GJ. These contracts are not considered normal sales contracts and are recorded at fair value.

General and Administrative (“G&A”) Expense

(\$ 000s except \$ per BOE)	Three months ended			Nine months ended	
	September 30, 2021	June 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Employee compensation	1,341	1,123	650	3,463	2,491
Office and administrative - recurring	670	888	647	2,488	2,016
Total G&A recurring	2,011	2,011	1,297	5,951	4,507
Office and administrative - nonrecurring	-	-	1,531	946	1,531
Total G&A	2,011	2,011	2,828	6,897	6,038
\$ per BOE recurring	1.74	1.74	1.41	1.76	1.53
\$ per BOE nonrecurring	-	-	1.66	0.28	0.52
\$ per BOE total	1.74	1.74	3.07	2.04	2.05

Employee compensation expense increased by \$972,000 for the first nine months of 2021 compared to 2020. In 2020, as a result of COVID-19, the Company cutback staffing costs and utilized the Canadian Emergency Wage Subsidy (“CEWS”) government program. The Company did not receive any CEWS payments in Q2 and Q3 2021.

Office and administrative recurring expenses for 2021 increased by \$472,000 compared to the same period in 2020 primarily due to an increase in the allowance for doubtful accounts, bank renewal fees, insurance and legal fees.

Non-recurring office and administrative costs are expenditures related to successfully defending an unsolicited hostile bid for the Company that expired March 29, 2021.

Finance Costs

(\$ 000s except \$ per BOE)	Three months ended			Nine months ended	
	September 30, 2021	June 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Interest on bank debt	4,401	6,057	4,476	16,677	10,786
Subordinated debt interest	584	571	-	1,592	-
Other interest	281	276	271	828	730
Interest expense	5,266	6,904	4,747	19,097	11,516
\$ per BOE	4.56	5.97	5.16	5.65	3.91
Unwinding of the discounted value of decommissioning liabilities	822	805	780	2,401	2,334
Total finance costs	6,088	7,709	5,527	21,498	13,850

Interest on bank debt increased in 2021 compared to 2020 due to an increase in interest rates stemming 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 and the interest rate grid for the term portion of the facility. Interest costs were partially offset by a \$31,405,000 reduction in the average bank debt balance outstanding. 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.

On October 20, 2021, the Company successfully closed a brokered private placement debt financing (the "Initial Offering"). The Initial Offering consists of an aggregate 32,000 units of the Company with each unit being comprised of one senior unsecured debenture, with a face value of \$1,000 which bears interest at 9 percent per annum and has a four-year term, and 56 common share purchase warrants of Bonterra, with each warrant exercisable to acquire one common share of Bonterra at a price of \$7.75 per common share for a period of four years from October 20, 2021 and is subject to customary anti-dilution adjustment until October 20, 2025. Each unit was issued at a price of \$1,000 for gross proceeds of \$32 million. In conjunction with the Initial Offering the Company has also entered into agreements with the holders of its existing subordinated promissory note and due to related party loan (the "Subordinated Loans") to convert their principal amounts of an aggregate of \$19.5 million into units under the same terms and conditions as the subscribers under the Initial Offering.

Concurrent with the closing of the Initial Offering, Bonterra entered into an agreement with the Agents providing for a separate offering of up to \$5 million of Units (the "Follow On Offering"), under the same terms and conditions as the Initial Offering. As part of the Follow On Offering, insiders of the Company will be given the option to subscribe for up to \$1 million in Units. On October 21, 2021, The Company announced an increase to the Follow On Offering to \$7.5 million of Units. The Follow On Offering is expected to close on or about November 10, 2021. For more information on unsecured subordinated debentures see Note 15 of the September 30, 2021 condensed financial statements.

Subordinated debt interest relates to the BDC second lien non-revolving four-year term loan. The Company drew \$28 million in Q4 2020 and \$17 million in Q1 2021. The loan bears interest at five percent in the first year and increases by one percent per year thereafter. For more information about the subordinated debt, refer to Note 8 of the September 30, 2021 condensed financial statements.

Other interest primarily relates to Subordinated Loans, which consists of amounts paid to a related party (see related party transactions for details) and a \$7,604,000 subordinated promissory note from a private investor. For more information about the subordinated promissory note, refer to Note 6 and 15 of the September 30, 2021 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 \$1,730,000.

Share-Option Compensation

(\$ 000s)	Three months ended			Nine months ended	
	September 30, 2021	June 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Share-option compensation	292	251	147	836	244

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 increased by \$592,000 in the first nine months of 2021 compared to 2020. The increase is primarily due to the 1,200,000 options issued in the fourth quarter of 2020 (which will be fully amortized in 2021).

Based on the outstanding options as of September 30, 2021, the Company has an unamortized expense of \$519,000, of which \$232,000 will be recorded for the remainder of 2021, \$191,000 for 2022 and \$96,000 thereafter. For more information about options issued and outstanding, refer to Note 10 of the September 30, 2021 condensed financial statements.

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

(\$ 000s)	Three months ended			Nine months ended	
	September 30, 2021	June 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Depletion and depreciation	21,579	17,333	13,404	54,224	44,786
Impairment of oil and gas assets	-	(203,197)	-	(203,197)	331,678

The provision for depletion and depreciation (“D&D”) increased in 2021 compared to 2020 primarily due to increased capital spending and production volumes, which was partially offset by less capital to deplete and depreciate from an impairment provision recorded in 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’s effect on the forward commodity benchmark prices used in impairment testing at March 31, 2020.

On June 30, 2021, the Company performed an impairment test due to higher commodity prices and an increase in the Company’s market capitalization since the impairment loss recognized as at March 31, 2020. A total impairment reversal of \$203,197,000 was recognized on Bonterra’s Alberta CGU PP&E. The impairment reversal was up to the original carrying value less associated D&D.

The impairment charge or reversal does not impact the Company’s cash flow or the amount of credit available under our bank credit facilities. For more information about PP&E, refer to Note 4 of the September 30, 2021 condensed financial statements.

Taxes

The Company recorded a deferred income tax expense of \$48,787,000 (2020 – \$57,441,000 recovery). The increase in deferred income tax expense for 2021 was primarily due to the impairment reversal recorded at the end of the second quarter of 2021 compared to an impairment provision recorded in the first quarter of 2020.

For additional information regarding income taxes, see Note 9 of the September 30, 2021 condensed financial statements.

Net Earnings (Loss)

(\$ 000s except \$ per share)	Three months ended			Nine months ended	
	September 30, 2021	June 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Net earnings (loss)	7,296	157,354	(5,211)	162,966	(295,818)
\$ per share - basic	0.22	4.68	(0.16)	4.84	(8.86)
\$ per share - diluted	0.21	4.55	(0.16)	4.72	(8.86)

Net earnings for the first nine months of 2021 increased by \$458,784,000 compared to the same period in 2020. The increase in net earnings was primarily attributed to an impairment reversal recorded in Q2 2021, compared to an impairment provision taken in Q1 2020 due to a recovery of forward commodity benchmark prices since the COVID-19 pandemic in 2020. The impairment provision and reversal, was reduced by deferred income taxes. Net earnings also increased from higher oil and gas sales due to improved commodity prices and higher production volumes.

Other Comprehensive Income (loss)

Other comprehensive income for 2021 consists of an unrealized gain before tax on investments (including investment in a related party) of \$615,000 relating to an increase in the investments' fair value (September 30, 2020 – unrealized loss of \$45,000). 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, 2021	June 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Cash flow from operations	24,616	18,874	6,370	58,235	33,272
\$ per share - basic	0.73	0.56	0.19	1.73	1.00
\$ per share - diluted	0.71	0.55	0.19	1.69	1.00

In the first nine months of 2021, cash flow from operations increased by \$24,963,000 compared to the same period in 2020. This was primarily due to an increase in commodity prices and production volumes, which was partially offset by an increase in production costs, an increase in realized risk management contract losses and an increase in finance costs.

Quarter-over-quarter, cash flow from operations increased due to an increase in oil and gas sales from higher commodity prices and a decrease in field maintenance and trucking costs, along with a decrease in finance costs.

Related Party Transactions

Bonterra holds 1,034,523 (December 31, 2020 – 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, 2021 of \$745,000 (December 31, 2020 – \$233,000). The Company provides marketing services for Pine Cliff. All services performed were charged at estimated fair value. As at September 30, 2021, the Company had an account receivable from Pine Cliff of \$34,000 (December 31, 2020 – \$62,000).

As at September 30, 2021, a loan to Bonterra provided by the Company's CEO, director and major shareholder totaled \$12,884,000 (December 31, 2020 - \$12,366,000). The loan bears interest at five and a half percent. Interest paid on this loan in the first nine months of 2021 was \$nil (September 30, 2020 - \$224,000). In the first nine months of 2021 interest accrued on this loan and added to the loan's principal totaled \$518,000 (September 30, 2020 - \$197,000). On October 20, 2021 (the "Conversion Date"), \$12,000,000 of the due to related party loan was exchanged for senior

unsecured subordinated debentures plus warrants and approximately \$923,000 of accrued interest to the Conversion Date was settled for cash. The CEO of Bonterra under the Initial Offering, also subscribed for an additional 7,000 units, for a total holding of 19,000 units (for more information see Note 5 and 15 of the condensed September 30, 2021 financial statements).

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, 2021 was 5.4 to 1 times (versus 9.8 to 1 times at December 31, 2020). The decreased net debt to cash flow ratio is the result of an increase in the Company's twelve-month trailing cash flow that is primarily due to the economic recovery since the effect of the COVID-19 pandemic on crude oil prices. Compared to the first nine months of 2020, net debt at September 30, 2021 increased by \$12,561,000 due to an expanded capital program supported by the BDC Term Loan which is designed to allow the Company to achieve 2021 average annual production at or above pre-COVID-19 levels of approximately 12,800 to 13,000 BOE per day. The Company's primary focus remains on reducing its bank debt. 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, 2021	June 30, 2021	December 31, 2020	September 30, 2020
Working capital deficiency	260,976	273,141	287,412	295,168
Subordinated debt	46,753	46,169	28,161	-
Net Debt	307,729	319,310	315,573	295,168

Net debt is a combination of subordinated debt and working capital. As of September 30, 2021, the Company's bank facility has a maturity date of May 31, 2022 and is recorded as a current liability. 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, 2021 increased by \$12,561,000 compared to September 30, 2020 primarily due to utilizing the \$45 million available on the BDC second lien non-revolving four-year term loan for the Company's capital program. With stronger prices in 2021, the Company will continue to reduce net debt as shown in the third quarter of 2021 compared to Q2 2021, where net debt decreased to \$308 million from \$319 million. For additional information on subordinated debt, see Note 8 of the September 30, 2021 condensed financial statements.

Working capital is calculated as current assets less current liabilities. Included in the working capital deficiency as at September 30, 2021 is \$20,488,000 of debt relating to the subordinated promissory note and the amount due to a related party plus \$224,784,000 of bank debt. 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 either accrued in accounts payable and accrued liabilities or settled by issuance of common shares. In April 2021, the Company issued 100,211 common shares to settle \$309,000 of accrued interest on the subordinated promissory note for the period of October 1, 2020 to June 30, 2021. On October 12, 2021, the Company issued 18,685 common shares to settle the \$104,000 of accrued interest on the subordinated promissory note for Q3 2021.

On October 20, 2021 (the "Conversion Date"), \$7,500,000 of the subordinated promissory note was exchanged for unsecured subordinated debentures plus warrants and approximately \$23,000 of accrued interest to the Conversion Date was settled for cash (for more information see Note 6 and 15 of the September 30, 2021 condensed financial statements).

Financial Risk Management

Bonterra is exposed to market risk to the extent that the demand for oil and gas produced by the Company exists within Canada. External factors beyond the Company's control may affect the marketability of oil and gas produced. Oil prices are affected by worldwide supply and demand fundamentals and access to market, while natural gas prices are affected by North American supply and demand fundamentals. In order to manage commodity risk, in 2021 the Company executed physical delivery sales contracts, which are considered normal sales contracts and are not recorded at fair value in the financial statements, and in addition executed risk management contracts which are not considered normal sales contracts and are recorded at fair value. The Company has contracts in place on approximately 30 percent of its estimated oil and gas production. The Company relies on its cash flow, access to equity markets and bank financing to support its operations and capital program. Bonterra uses these futures contracts to hedge its exposure to the potential adverse impact of commodity price volatility and provide a measure of stability to Bonterra's capital development program. For more information on physical delivery and risk management contracts in place see Note 12 of the September 30, 2021 condensed financial statements.

Capital Expenditures

During the nine months ended September 30, 2021, the Company incurred capital expenditures of \$49,646,000 (September 30, 2020 - \$24,664,000). Of the total capital invested, \$40,497,000 was directed to the drilling of 29 gross (27.4 net) wells and the completion, equip and tie-in of 29 gross (27.2 net) wells, of which four of the completed and equipped wells were drilled in 2020. Of the wells drilled in 2021, 25 have been placed on production as of September 30, 2021. An additional \$9,149,000 was spent primarily on related infrastructure and recompletions.

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 on its inactive wells, pipelines and facilities excluding any Alberta SRP funding. Due to the impact of COVID-19 in 2020, the previous year requirement has been extended to the end of 2021. The Company has spent \$3.1 million as of September 30, 2021, of a total commitment of approximately \$5.1 million for the 2021 fiscal year.

Bank Debt

Bank debt represents the outstanding amounts drawn on the Company's bank facility. On June 25, 2021, the Company's credit facility was redetermined at \$265,000,000 (December 31, 2020 - \$300,000,000), comprised of a \$175,000,000 syndicated revolving credit facility, a \$25,000,000 non-syndicated revolving credit facility and a term loan of \$65,000,000. The amount drawn under the total bank facility at September 30, 2021 was \$224,784,000 (December 31, 2020 - \$252,255,000).

On October 20, 2021 the Company entered into its Fourth Amended and Restated Credit Agreement ("ARCA") including the issuance of senior unsecured subordinated debentures plus warrants (for more information on term debt see Note 15). The ARCA represents a total bank facility of \$220,000,000, comprised of a \$195,000,000 syndicated revolving credit facility and a \$25,000,000 non-syndicated revolving facility. The amount drawn under the total bank facility at October 20, 2021 was approximately \$190,000,000. The amounts borrowed under the total 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 7.00 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 May 31, 2022, with a maturity date of November 30, 2022. The available lending limit of the bank facility is scheduled to be reviewed before May 31, 2022. The syndicated revolving credit facility has two separate \$10,000,000 reductions to the total bank facility on December 31, 2021 and March 31, 2022 before the next redetermination.

Under the ARCA, the Company is restricted from making any payment of dividend distributions. In addition, the Company is also limited to expenditures on an annual basis which cannot:

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

As at September 30, 2021, 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, 2021.

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 next bank 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 7 of the September 30, 2021 unaudited condensed financial statements.

The amount available for borrowing under the bank facility is reduced by outstanding letters of credit. Subsequent to the quarter, letters of credit were increased to a total of \$1,445,000 from the \$1,245,000 that were issued as at September 30, 2021 (December 31, 2020 - \$1,245,000). Security for the bank facility consists of various floating demand debentures totaling \$750,000,000 (December 31, 2020 - \$750,000,000) over all of the Company's assets and a general security agreement with first ranking over all personal and real property.

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.

	Number	Amount (\$ 000s)
Issued and fully paid - common shares		
Balance, December 31, 2020	33,511,316	765,415
Shares issued for interest on subordinated promissory note	100,211	310
Issued pursuant to the Company's share option plan	127,581	301
Transfer from contributed surplus to share capital		120
Balance, September 30, 2021	33,739,108	766,146

The Company provides a stock option plan for its directors, officers and employees. Under the plan, the Company may grant options for up to 3,373,911 (December 31, 2020 – 3,351,131) 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 10 of the September 30, 2021 unaudited condensed financial statements.

Subsequent to the quarter, the unsecured subordinated debentures issued with the Initial Offering and Follow On Offering will have a total of 3,304,000 warrants outstanding over the next four years. Each warrant can be exercised to acquire one common share of Bonterra, will be at a price of \$7.75 per common share and is subject to customary anti-dilution adjustment until October 20, 2025. For more information on unsecured subordinated debentures see Note 15 of the September 30, 2021 condensed financial statements.

Dividend Policy

For the nine months ended September 30, 2021, the Company did not declare or pay any dividends (September 30, 2020 – \$1,002,000) (\$0.03 per share).

On March 10, 2020, the Company's Board of Directors elected to suspend its monthly dividend, commencing on April 1, 2020.

Quarterly Financial Information

	2021				2020		
For the periods ended (\$ 000s except \$ per share)	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue - oil and gas sales	64,457	59,163	48,794	31,761	29,155	22,171	38,555
Cash flow from operations	24,616	18,874	14,745	(1,199)	6,370	4,429	22,473
Net earnings (loss)	7,296	157,354	(1,684)	(11,071)	(5,211)	(5,954)	(284,653)
Per share - basic	0.22	4.68	(0.05)	(0.33)	(0.16)	(0.18)	(8.53)
Per share - diluted	0.21	4.55	(0.05)	(0.33)	(0.16)	(0.18)	(8.53)

	2019			
For the periods ended (\$ 000s except \$ per share)	Q4	Q3	Q2	Q1
Revenue - oil and gas sales	50,743	47,320	54,852	49,834
Cash flow from operations	20,767	19,774	25,468	15,123
Net earnings (loss)	(1,389)	(1,276)	23,131	1,457
Per share - basic	(0.04)	(0.04)	0.69	0.04
Per share - diluted	(0.04)	(0.04)	0.69	0.04

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 2020, the Company's net earnings and cash flow significantly decreased mainly due to the effect of the COVID-19 pandemic on crude oil demand. With the utilization of the BDC funding on the Company's capital program and well reactivation costs in the fourth quarter of 2020, the Company increased production, net earnings and cash flow from operations in the quarters subsequent to December 31, 2020. Net loss for Q1 2020 and net earnings in Q2 2021 is significantly higher than other quarters due to an impairment provision and reversal on the Company's Alberta cash generating unit.

Contractual Obligations and Commitments

At September 30, 2021, Bonterra's total contractual obligations and commitments were \$327,965,000. These include obligations and commitments in place as of December 31, 2020, plus a draw of additional debt under the subordinated debt and accrued interest in the period, as well as additional firm service commitments entered into during the nine months ended September 30, 2021. For more information, refer to Note 13 "Commitments and Financial Liabilities" of the September 30, 2021 condensed financial statements.

Off-Balance Sheet Financing

Bonterra does not have any guarantees or off-balance sheet arrangements that have been excluded from the condensed statement of financial position or balance sheet other than commitments disclosed in Note 13 of the September 30, 2021 condensed financial statements.

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.

Assessment of Business Risk

Bonterra's exploration and production activities are concentrated in the Western Canadian Sedimentary Basin, where activity is highly competitive and includes a variety of different sized companies. Bonterra is subject to a number of risks that are also common to other organizations involved in the oil and gas industry. Such risks include finding and developing oil and gas reserves at economic costs, estimating amounts of recoverable reserves, production of oil and gas in commercial quantities, marketability of oil and gas produced, fluctuations in commodity prices, stock market volatility, debt service which may limit market price of shares, financial and liquidity risks and environmental and safety risks.

The Company mitigates its risk related to producing hydrocarbons through the utilization of current technology and information systems. In addition, Bonterra strives to operate the majority of its properties, thereby maintaining operational control where possible.

The Company's business, operations and financial condition has been significantly adversely affected by COVID-19. Actions taken to reduce the spread of COVID-19 have resulted in volatility and disruptions in regular business operations, supply chains and financial markets. COVID-19 also poses a risk on the financial capacity of Bonterra's contract counterparties and potentially their ability to perform contractual obligations. These difficulties have been exacerbated in Canada by political and other actions resulting in uncertainty surrounding regulatory, tax, royalty changes and environmental regulation.

Additional information regarding risk factors including, but not limited to, business risks is available in our Annual Information Form for the year ended December 31, 2020, which can be accessed on our website www.bonterraenergy.com or on SEDAR at www.sedar.com.

Environmental Risk

General Risks

Oil and gas exploration and production can involve environmental risks such as litigation, physical and regulatory risks. Physical risks include the pollution of the environment, climate change and destruction of natural habitat, as well as safety risks such as personal injury. The Company conducts its operations and ensures to protect the environment, its various stakeholders, and the general public. Bonterra maintains current insurance coverage for comprehensive and general liability as well as limited pollution liability. The amount and terms of this insurance are reviewed on an ongoing basis and adjusted as necessary to reflect current corporate requirements, availability, as well as industry standards and government regulations. Without such insurance, and if the Company becomes subject to environmental liabilities, the payment of such liabilities could reduce or eliminate its available funds or could exceed the funds the Company has available and result in financial distress.

Climate Change Risks

Our exploration and production facilities and other operations and activities emit greenhouse gasses ("GHG") which may require us to comply with federal and/or provincial GHG emissions legislation. Climate change policy is evolving at regional, national and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place to prevent climate change or mitigate our effects. The direct or indirect costs of compliance with GHG-related regulations may have a material adverse effect on our business, financial condition, results of operations and prospects. Some of our significant facilities may ultimately be subject to future regional, provincial and/or federal climate change regulations to manage GHG emissions. In addition, climate change has been linked to long-term shifts in climate patterns and extreme weather conditions both of which pose the risk of causing operational difficulties.

Additional information regarding risk factors including, but not limited to, environmental risks is available in our Annual Information Form for the year ended December 31, 2020, which can be accessed on our website www.bonterraenergy.com or on SEDAR at www.sedar.com.

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; climate change 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 or maintain its syndicated bank facility; 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, 2021 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, 2021.

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

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

CONDENSED STATEMENT OF FINANCIAL POSITION

As at (unaudited) (\$ 000s)	Note	September 30, 2021	December 31, 2020
Assets			
Current			
Accounts receivable		24,419	12,891
Crude oil inventory		661	598
Prepaid expenses		4,927	3,920
Investments		164	62
		30,171	17,471
Investment in related party		745	233
Exploration and evaluation assets		1,860	373
Property, plant and equipment	4	898,198	704,921
Investment tax credit receivable	9	8,861	8,861
		939,835	731,859
Liabilities			
Current			
Accounts payable and accrued liabilities		32,973	28,229
Risk management contract	12	11,757	3,599
Due to related party	5	12,884	12,366
Subordinated promissory note	6	7,604	7,604
Bank debt	7	224,784	252,255
Deferred consideration		1,145	830
		291,147	304,883
Subordinated debt	8	46,753	28,161
Deferred consideration		10,467	11,709
Decommissioning liabilities		127,549	137,002
Deferred tax liability		102,329	53,471
		578,245	535,226
Shareholders' equity			
Share capital	10	766,146	765,415
Contributed surplus		31,388	30,672
Accumulated other comprehensive loss		(206)	(750)
Deficit		(435,738)	(598,704)
		361,590	196,633
		939,835	731,859
Commitments and contingencies	13		
Subsequent events	5, 6, 7, 15		

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF COMPREHENSIVE INCOME**For the periods ended September 30 (unaudited)**

(\$ 000s, except \$ per share)	Note	Three months ended 2021	2020	Nine months ended 2021	2020
Revenue					
Oil and gas sales, net of royalties	11	57,338	27,566	155,479	84,017
Other income	14	1,599	73	5,213	178
Deferred consideration		321	201	928	675
Gain (Loss) on risk management contracts	12	(3,094)	(383)	(18,890)	928
		56,164	27,457	142,730	85,798
Expenses					
Production		16,676	12,274	50,719	42,461
Office and administration		670	2,178	3,434	3,547
Employee compensation		1,341	650	3,463	2,491
Finance costs		6,088	5,527	21,498	13,850
Share-option compensation		292	147	836	244
Depletion and depreciation	4	21,579	13,404	54,224	44,786
Impairment (reversal of impairment)	4	-	-	(203,197)	331,678
		46,646	34,180	(69,023)	439,057
Earnings (loss) before income taxes		9,518	(6,723)	211,753	(353,259)
Taxes					
Deferred income tax expense (recovery)	9	2,222	(1,512)	48,787	(57,441)
		2,222	(1,512)	48,787	(57,441)
Net earnings (loss) for the period		7,296	(5,211)	162,966	(295,818)
Other comprehensive income (loss)					
Unrealized gain (loss) on investments		346	53	615	(45)
Deferred taxes on unrealized gain on investments		(40)	(6)	(71)	(3)
Other comprehensive income (loss) for the period		306	47	544	(48)
Total comprehensive income (loss) for the period		7,602	(5,164)	163,510	(295,866)
Net earnings (loss) per share - basic	10	0.22	(0.16)	4.84	(8.86)
Net earnings (loss) per share - diluted	10	0.21	(0.16)	4.72	(8.86)
Comprehensive income (loss) per share - basic	10	0.23	(0.15)	4.86	(8.86)
Comprehensive income (loss) per share - diluted	10	0.22	(0.15)	4.73	(8.86)

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF CASH FLOW

For the periods ended September 30 (unaudited)

(\$ 000s)	Note	Three months		Nine months	
		2021	2020	2021	2020
Operating activities					
Net earnings (loss)		7,296	(5,211)	162,966	(295,818)
Items not affecting cash					
Deferred income taxes expense (recovery)		2,222	(1,512)	48,787	(57,441)
Deferred consideration		(321)	(201)	(928)	(675)
Share-option compensation		292	147	836	244
Unrealized loss (gain) on risk management contracts	12	(1,762)	(1,141)	8,158	13
Depletion and depreciation		21,579	13,404	54,224	44,786
Government grant in-kind	14	(1,470)	-	(4,892)	-
Impairment (reversal of impairment)		-	-	(203,197)	331,678
Unwinding of the discount on decommissioning liabilities		822	780	2,401	2,334
Investment income		(5)	(19)	(29)	(38)
Interest expense		5,266	4,747	19,097	11,516
Change in non-cash working capital accounts:					
Accounts receivable		(1,072)	504	(11,015)	11,859
Crude oil inventory		(4)	8	(61)	68
Prepaid expenses		157	(2,128)	(1,007)	(2,207)
Accounts payable and accrued liabilities		(3,419)	1,810	2,679	68
Decommissioning expenditures		(565)	(342)	(3,107)	(1,934)
Interest paid		(4,400)	(4,476)	(16,677)	(11,181)
Cash provided by operating activities		24,616	6,370	58,235	33,272
Financing activities					
Increase (decrease) of bank debt		(19,537)	(3,785)	(27,471)	973
Subordinated debt		-	-	17,000	-
Stock option proceeds		161	-	301	-
Dividends		-	-	-	(1,002)
Cash used by financing activities		(19,376)	(3,785)	(10,170)	(29)
Investing activities					
Investment income received		5	19	29	38
Exploration and evaluation expenditures		(32)	-	(1,487)	(586)
Property, plant and equipment expenditures	4	(18,546)	(2,819)	(48,159)	(24,078)
Change in non-cash working capital accounts:					
Accounts payable and accrued liabilities		13,734	146	2,065	(8,756)
Accounts receivable		(401)	69	(513)	139
Cash used in investing activities		(5,240)	(2,585)	(48,065)	(33,243)
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 10)	Share Capital (Note 10)	Contributed surplus ⁽¹⁾	Accumulated other Comprehensive loss ⁽²⁾	Deficit	Total shareholders' equity
January 1, 2020	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
Share-option compensation			194			194
Shares issued for subordinated promissory note interest	122,520	139				139
Comprehensive income (loss)				46	(11,071)	(11,025)
December 31, 2020	33,511,316	765,415	30,672	(750)	(598,704)	196,633
Share-option compensation			836			836
Shares issued for subordinated promissory note interest	100,211	310				310
Exercise of options	127,581	301				301
Transfer to share capital on exercise of options		120	(120)			-
Comprehensive income				544	162,966	163,510
September 30, 2021	33,739,108	766,146	31,388	(206)	(435,738)	361,590

⁽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, 2021 and December 31, 2020 and for the nine months ended September 30, 2021 and September 30, 2020. (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, 2021.

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 2020 audited annual financial statements. These condensed financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the 2020 audited annual financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

3. NOVEL CORONAVIRUS COVID-19 (“COVID-19”)

During the first quarter of 2020, the World Health Organization declared the novel coronavirus (COVID-19) outbreak a global pandemic prompting many countries around the world to close international borders, place restrictions on travel and force closures for certain types of public places and businesses that were deemed non-essential, causing significant disruption to global economies. Crude oil prices have partially recovered from the historic lows observed early in 2020, but price support from future demand remains uncertain. Efforts to re-open local economies and international borders around the globe resulted in varying degrees of virus outbreak and some countries have re-imposed restrictions with COVID-19 variants. Vaccinations programs continue to be administered around the world, however the pace with which vaccines are administered is dependent on the supply access and logistics organized by individual nations. The potential direct and indirect impacts of the economic downturn, including reduced demand for commodities and continued economic uncertainty, have been considered in management’s estimates, and assumptions at period end.

4. PROPERTY, PLANT AND EQUIPMENT

Cost (\$ 000s)	Oil and gas properties	Production facilities	Furniture fixtures & other equipment	Total property plant & equipment
Balance at December 31, 2020	1,457,565	369,585	2,297	1,829,447
Additions	34,551	13,592	16	48,159
Adjustment to decommissioning liabilities	(3,854)	-	-	(3,854)
Balance at September 30, 2021	1,488,262	383,177	2,313	1,873,752

Accumulated depletion and depreciation (\$ 000s)	Oil and gas properties	Production facilities	Furniture fixtures & other equipment	Total property plant & equipment
Balance at December 31, 2020	(910,638)	(212,032)	(1,856)	(1,124,526)
Depletion and depreciation	(45,433)	(8,748)	(43)	(54,224)
Disposal and other	(1)	-	-	(1)
Impairment reversal	159,672	43,525	-	203,197
Balance at September 30, 2021	(796,400)	(177,255)	(1,899)	(975,554)

Carrying amounts as at: (\$ 000s)	Oil and gas properties	Production facilities	Furniture fixtures & other equipment	Total
December 31, 2020	546,927	157,553	441	704,921
September 30, 2021	691,862	205,922	414	898,198

Impairment

At June 30, 2021 the Company identified indicators of an impairment reversal due to increased forward commodity prices and an increase in the Company's market capitalization since the impairment loss recognized as at March 31, 2020. As a result, recovery testing was performed by preparing estimates of future cash flows to determine the recoverable amount of the respective assets.

At June 30, 2021 the Company determined that the recoverable amount of the Company's Alberta CGU exceeded its carrying value. A total impairment recovery of \$203,197,000 was recognized in the Company's PP&E.

Impairment can be reversed for PP&E up to the lower of the recoverable amount or the original carrying value less any associated depletion and depreciation that would have been incurred had the impairment not occurred. Goodwill impairment cannot be reversed.

The following table outlines the forecasted benchmark commodity prices and the exchange rates used in the impairment (reversal) calculation of Property, plant and equipment ("PP&E") at June 30, 2021.

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031 ⁽²⁾
WTI Crude oil \$US/Bbl ⁽¹⁾	71.33	67.20	63.95	63.23	64.50	65.79	67.10	68.44	69.81	71.21	72.63
AECO C-Spot \$Mmbtu ⁽¹⁾	3.28	2.97	2.58	2.57	2.62	2.67	2.73	2.78	2.84	2.90	2.95
Exchange rate US\$/Cdn	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80

⁽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.

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 June 30, 2021. The Company concluded that no reasonable change in the key assumptions, such as a two percent change in commodity prices or a one percent change in the discount rate, would result in a different impairment reversal being recorded.

5. TRANSACTIONS WITH RELATED PARTIES

As at September 30, 2021, a loan to Bonterra provided by the Company's CEO, director and major shareholder totaled \$12,884,000 (December 31, 2020 - \$12,366,000). The loan bears interest at five and a half percent and has no set repayment terms. Effective June 1, 2020, principal or interest payments cannot be settled for cash but may be settled by the issuance of common shares. No common shares have been issued to date. Security under the debenture is over all of the Company's assets and is subordinated to all claims in favour of the syndicate of senior lenders (including subordinated debt) providing credit facilities to the Company. Interest paid on this loan in the first nine months of 2021 was \$nil (September 30, 2020 - \$224,000). In the first nine months of 2021 interest accrued on this loan and added to the loan's principal totaled \$518,000 (September 30, 2020 - \$197,000).

On October 20, 2021 (the "Conversion Date"), \$12,000,000 of the due to related party loan was exchanged for senior unsecured subordinated debentures plus warrants and approximately \$923,000 of accrued interest to the Conversion Date was settled for cash (for more information see Note 15).

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, 2021, the Company had an account receivable from Pine Cliff of \$34,000 (December 31, 2020 - \$62,000).

6. SUBORDINATED PROMISSORY NOTE

As at September 30, 2021, Bonterra had \$7,604,000 (December 31, 2020 - \$7,604,000) outstanding on a subordinated promissory note to a private investor. The note bears interest at five and a half percent. Effective June 1, 2020, principal or interest payments cannot be settled for cash but may be settled by the issuance of common shares. Security consists of a floating demand debenture over all of the Company's assets and is subordinated to all claims in favor of the syndicate of senior lenders (including subordinated debt) providing credit facilities to the Company. Interest settled in cash on the subordinated promissory note for the nine months ended September 30, 2021 was \$nil (September 30, 2020 - \$171,000). In 2021, the Company issued 100,211 common shares to settle \$309,000 of accrued interest for the period October 1, 2020 to June 30, 2021. On October 12, 2021, the Company issued 18,685 common shares to settle the \$104,000 of accrued interest for the three months ended September 30, 2021.

On October 20, 2021, \$7,500,000 of the subordinated promissory note was exchanged for senior unsecured subordinated debentures plus warrants and approximately \$23,000 of accrued interest to the Conversion Date was settled for cash (for more information see Note 15).

7. BANK DEBT

As at September 30, 2021, the Company has a total bank facility of \$265,000,000 (December 31, 2020 - \$300,000,000), comprised of a \$175,000,000 syndicated revolving credit facility, a \$25,000,000 non-syndicated revolving credit facility and a term loan of \$65,000,000. The amount drawn under the total bank facility at September 30, 2021 was \$224,784,000 (December 31, 2020 - \$252,255,000).

On October 20, 2021 the Company entered into its Fourth Amended and Restated Credit Agreement ("ARCA") including the issuance of senior unsecured subordinated debentures plus warrants (for more information on term debt see Note 15). The ARCA represents a total bank facility of \$220,000,000, comprised of a \$195,000,000 syndicated revolving credit facility and a \$25,000,000 non-syndicated revolving facility. The amounts borrowed under the total

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 7.00 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 May 31, 2022, with a maturity date of November 30, 2022. The available lending limit of the bank facility is scheduled to be reviewed before May 31, 2022. The syndicated revolving credit facility has two separate \$10,000,000 reductions to the total bank facility on December 31, 2021 and March 31, 2022 before the next redetermination.

The amount available for borrowing under the bank facility is reduced by outstanding letters of credit. Subsequent to the quarter, letters of credit were increased to a total of \$1,445,000 from the \$1,245,000 that were issued as at September 30, 2021 (December 31, 2020 - \$1,245,000). Security for the bank facility consists of various floating demand debentures totaling \$750,000,000 (December 31, 2020 - \$750,000,000) over all of the Company's assets and a general security agreement with first ranking over all personal and real property.

As at September 30, 2021, Bonterra was in compliance with all financial covenants on its total bank facility.

Under the ARCA, the Company is restricted from making any payment of dividend distributions. In addition, the Company is also limited to expenditures on an annual basis which cannot:

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

8. SUBORDINATED DEBT

Effective November 13, 2020, the Company entered into a second lien non-revolving four-year term facility from Business Development Bank of Canada (the "BDC") for \$45,000,000, through the Business Credit Availability Program (the "BCAP"). The amount drawn under the BCAP facility at September 30, 2021 was \$45,000,000 (December 31, 2020 - \$28,000,000). Interest owing under the BCAP facility is accrued and added to the principal at five percent for the first year from the effective date. Thereafter interest (including accrued interest) will be paid monthly at an interest rate calculated as the greater of the revolving bank facility rate plus 1.00 percent or a fixed interest rate of 6.00 percent, increasing by 1.00 percent in each of the subsequent years. Security consists of a floating demand debenture over all of the Company's assets and is subordinated to all claims in favor of the syndicate of senior lenders providing credit facilities to the Company. Interest accrued and capitalized on the BCAP facility during the first nine months of 2021 was \$1,592,000 (September 30, 2020 - \$nil).

9. INCOME TAXES

(\$ 000s)	September 30, 2021	December 31, 2020
Deferred tax asset (liability) related to:		
Investments	9	80
Exploration and evaluation assets and property, plant and equipment	(150,651)	(100,243)
Investment tax credits	(2,041)	(2,041)
Decommissioning liabilities	29,372	31,558
Corporate tax losses carried forward	22,423	20,496
Financial derivative	2,707	829
Corporate capital tax losses carried forward	7,453	7,488
Unrecorded benefits of capital tax losses carried forward	(7,453)	(7,488)
Unrecorded benefits of successored resource related pools	(4,148)	(4,150)
Deferred tax asset (liability)	(102,329)	(53,471)

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, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Earnings (loss) before taxes	9,518	(6,723)	211,753	(353,259)
Combined federal and provincial income tax rates	23.03%	23.03%	23.03%	24.35%
Income tax provision calculated using statutory tax rates	2,192	(1,548)	48,767	(86,028)
Increase (decrease) in taxes resulting from:				
Share-option compensation	68	35	193	59
Impairment of goodwill	-	-	-	22,602
Change in unrecorded benefits of tax pools	(37)	(3)	(37)	2,525
Change in estimates and other	(1)	4	(136)	3,401
	2,222	(1,512)	48,787	(57,441)

⁽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	55,976
Canadian oil and gas property expenditures	10	71,559
Canadian development expenditures	30	95,865
Canadian exploration expenditures	100	9,111
Federal income tax losses carried forward ⁽¹⁾	100	110,610
Provincial income tax losses carried forward ⁽²⁾	100	72,229
		415,350

⁽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 - \$55,502,000; 2041 - \$8,784,000.

⁽²⁾ Provincial income tax losses carried forward expire in the following years: 2036 - \$5,562,000; 2037 - \$182,000; 2039 - \$2,520,000; 2040 - \$55,683,000; 2041 - \$8,282,000.

The Company has \$8,861,000 (December 31, 2020 - \$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 \$64,725,000 (December 31, 2020 - \$65,015,000) of capital losses carried forward which can only be claimed against taxable capital gains.

10. 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, December 31, 2020	33,511,316	765,415
Shares issued for interest on subordinated promissory note	100,211	310
Issued pursuant to the Company's share option plan	127,581	301
Transfer from contributed surplus to share capital		120
Balance, September 30, 2021	33,739,108	766,146

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 three and nine months ended September 30, 2021, are as follows:

	Three Months		Nine Months	
	2021	2020	2021	2020
Basic shares outstanding	33,715,561	33,388,796	33,643,374	33,388,796
Dilutive effect of share options ⁽¹⁾	1,143,499	-	913,249	14,969
Diluted shares outstanding	34,859,060	33,388,796	34,556,623	33,403,765

⁽¹⁾ The Company did not include 262,000 share-options for the three months ended September 30, 2021 (September 30, 2020 - 2,742,700) and 315,500 share-options for the nine months ended September 30, 2021 (September 30, 2020 – 2,562,700) in the dilutive effect of share-options calculations as these share-options were anti-dilutive.

For the nine month period ended September 30, 2021, the Company did not declare or pay dividends (September 30, 2020 - \$1,002,000 (\$0.03 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 3,373,911 (December 31, 2020 – 3,351,131 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, 2021 and changes during the year are presented below:

	Number of options	Weighted average exercise price
At December 31, 2020	2,426,700	\$2.63
Options granted	235,500	4.39
Options exercised ⁽¹⁾	(192,350)	3.14
Options forfeited	(87,000)	1.96
Options expired	(47,000)	13.55
At September 30, 2021	2,335,850	\$2.57

⁽¹⁾ 96,500 options were exercised under the cashless option method, which resulted in 31,731 shares being issued in which the Company received no proceeds.

The following table summarizes information about options outstanding and exercisable as at September 30, 2021:

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 - \$ 5.00	2,240,850	1.3 years	\$ 2.36	327,500	\$ 2.78
5.01 - 10.00	81,000	1.2 years	5.78	33,000	5.84
10.01 - 20.00	14,000	0.8 years	17.76	14,000	17.76
\$ 1.00 - \$ 20.00	2,335,850	1.3 years	\$ 2.57	374,500	\$ 3.61

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. In 2021, the Company granted 235,500 options with an estimated fair value of \$417,000 or \$1.77 per option using the Black-Scholes option pricing model with the following key assumptions:

	September 30, 2021
Weighted-average risk free interest rate (%) ⁽¹⁾	0.40
Weighted-average expected life (years)	2.0
Weighted-average volatility (%) ⁽²⁾	84.61
Forfeiture rate (%)	7.69
Weighted average dividend yield (%)	2.71

⁽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.

11. OIL AND GAS SALES, NET OF ROYALTIES

(\$ 000s)	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Oil and gas sales				
Crude oil	50,127	22,526	136,061	71,266
Natural gas liquids	4,172	1,889	10,682	4,856
Natural gas	10,158	4,740	25,671	13,759
	64,457	29,155	172,414	89,881
Less royalties:				
Crown	(4,193)	(656)	(9,525)	(3,191)
Freehold, gross overriding royalties and other	(2,926)	(933)	(7,410)	(2,673)
	(7,119)	(1,589)	(16,935)	(5,864)
Oil and gas sales, net of royalties	57,338	27,566	155,479	84,017

12. FINANCIAL RISK MANAGEMENT

Financial Risk Factors

The Company undertakes transactions in a range of financial instruments including:

- Accounts receivable
- Accounts payable and accrued liabilities
- Common share investments
- Due to related party
- Subordinated promissory note
- Bank debt
- Subordinated debt

The Company's activities result in exposure to a number of financial risks including market risk (commodity price risk, interest rate risk, and foreign exchange risk), credit risk, liquidity risk and equity price risk.

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.

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. The Company does not speculatively trade in risk management contracts. The Company's risk management contracts are entered into to manage the risks relating to commodity prices from its business activities. Certain financial risks have been increased due to the COVID-19 outbreak and have 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 commodity prices have stabilized since the outbreak of the COVID-19 pandemic there is still economic uncertainty as a result of new COVID-19 variants and varying levels of progress each country around the globe can administer vaccines will have 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 next borrowing base redetermination will not result in a borrowing base shortfall, and that the necessary funds or additional security will be available to eliminate the short fall. Upon receipt of notice from the lenders, the shortfall would have to be remedied within 30 days or by such other means as acceptable to the lenders.

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 \$24,419,000 accounts receivable balance at September 30, 2021 (December 31, 2020 - \$12,891,000) over 88 percent (2020 – 91 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, 2021, 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, 2021, approximately \$234,000 or 1.0 percent of the Company's total accounts receivable are aged over 90 days and considered past due (December 31, 2020 - \$709,000 or 5.5 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, 2021 is \$1,253,000 (December 31, 2020 - \$1,186,000) 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 year the Company had a net debt to cash flow level of 5.4:1 compared to 9.8:1 as at December 31, 2020. The decrease in net debt to cash flow ratio is primarily due to an increase in commodity prices in the first nine months of 2021. Net debt to cash flow ratio should improve in subsequent quarters with commodity prices stabilizing, increased production from the Company's capital program and having approximately thirty percent of the Company's forecasted oil and natural gas production hedged. Bonterra has also optimized using any 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, 2021	December 31, 2020
Bank debt ⁽¹⁾	224,784	252,255
Subordinated debt	46,753	28,161
Current liabilities	66,363	52,628
Current assets	(30,171)	(17,471)
Net debt	307,729	315,573
Cash flow from operations	57,036	32,073
Net debt to cash flow ratio	5.4	9.8

⁽¹⁾ Bank debt is classified as a current liability.

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.

Commodity Price Risk

The Company's principal operation is the production and sale of crude oil, natural gas and natural gas liquids. Fluctuations in prices of these commodities directly impact the Company's performance and ability to continue with its dividends.

The Company has used various risk management contracts to set price parameters for a portion of its production. The Company has assumed the risk in respect of commodity prices, except for a small portion of physical delivery sales and risk management contracts to manage commodity risk on the Company's higher operating cost areas.

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.

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, 2021, the Company has the following physical delivery sales contracts in place.

Product	Type of contract	Volume	Term	Contract price (\$)
Oil	Physical collar - WTI ⁽¹⁾	500 BBL/day	Jan 1, 2021 to Dec 31, 2021	37.00 to 47.70 USD/BBL
Oil	Physical collar - WTI ⁽¹⁾	250 BBL/day	Jan 1, 2022 to Mar 31, 2022	48.00 to 63.90 USD/BBL
Oil	Physical collar - WTI ⁽¹⁾	500 BBL/day	Apr 1, 2022 to Jun 30, 2022	48.00 to 75.50 USD/BBL
Oil	Physical collar - WTI ⁽¹⁾	500 BBL/day	Apr 1, 2022 to Jun 30, 2022	48.00 to 77.00 USD/BBL
Oil	Physical collar - WTI ⁽¹⁾	500 BBL/day	Jul 1, 2022 to Sept 30, 2022	48.00 to 77.20 USD/BBL
Oil	Fixed price - MSW differential ⁽²⁾⁽³⁾	500 BBL/day	Jan 1, 2021 to Dec 31, 2021	(8.18) CAD/BBL
Oil	Fixed price - MSW differential ⁽²⁾⁽³⁾	250 BBL/day	Jan 1, 2022 to Mar 31, 2022	(5.00) USD/BBL
Oil	Fixed price - MSW differential ⁽²⁾⁽³⁾	500 BBL/day	Apr 1, 2022 to Jun 30, 2022	(5.25) USD/BBL
Oil	Fixed price - MSW differential ⁽²⁾⁽³⁾	500 BBL/day	Jul 1, 2022 to Sept 30, 2022	(4.65) USD/BBL
Gas	Fixed Price -AECO Daily ⁽⁴⁾	3,000 GJ/day	Nov 1, 2020 to Oct 31, 2021	2.79 GJ/ day
Gas	Fixed Price -AECO Daily ⁽⁴⁾	2,500 GJ/day	Jan 1, 2021 to Dec 31, 2021	2.45 GJ/ day
Gas	Fixed Price -AECO Daily ⁽⁴⁾	3,000 GJ/day	Nov 1, 2021 to Dec 31, 2021	2.47 GJ/ day
Gas	Fixed Price -AECO Daily ⁽⁴⁾	3,000 GJ/day	Jan 1, 2022 to Mar 31, 2022	3.10 GJ/ day
Gas	Fixed Price -AECO Daily ⁽⁴⁾	2,500 GJ/day	Jan 1, 2022 to Mar 31, 2022	2.65 GJ/ day
Gas	Fixed Price -AECO Daily ⁽⁴⁾	2,000 GJ/day	Jan 1, 2022 to Mar 31, 2022	2.70 GJ/ day
Gas	Physical collar - AECO Monthly ⁽⁵⁾	5,000 GJ/day	Apr 1, 2022 to Jun 30, 2022	2.00 to 2.60 GJ/ day
Gas	Fixed Price -AECO Daily ⁽⁴⁾	2,000 GJ/day	Apr 1, 2022 to Jun 30, 2022	2.40 GJ/ day
Gas	Physical collar - AECO Monthly ⁽⁵⁾	5,000 GJ/day	Jul 1, 2022 to Sep 30, 2022	2.50 to 3.15 GJ/ day
Gas	Fixed Price -AECO Daily ⁽⁴⁾	2,500 GJ/day	Jul 1, 2022 to Sep 30, 2022	3.18 GJ/ day

⁽¹⁾ "WTI" refers to West Texas Intermediate, a grade of light sweet crude oil used as benchmark pricing in the United States.

⁽²⁾ "MSW Stream index" or "Edmonton Par" refers to the mixed sweet blend that is the benchmark price for conventionally produced light sweet crude oil in Western Canada.

⁽³⁾ "MSW differential" is the primary difference between WTI and MSW steam index benchmark pricing.

⁽⁴⁾ "AECO Daily" refers to a grade or heating content of natural gas used as daily index benchmark pricing in Alberta, Canada.

⁽⁵⁾ "AECO Monthly" refers to a grade or heating content of natural gas used as monthly index benchmark pricing in Alberta, Canada.

Subsequent to September 30, 2021, the Company entered into the following physical delivery sales contracts.

Product	Type of contract	Volume	Term	Contract price (\$)
Oil	Fixed price - MSW Stream Index ⁽²⁾	500 BBL/day	Jan 1, 2022 to Mar 31, 2022	91.00 CAD/BBL
Gas	Fixed Price -AECO Daily	2,500 GJ/day	Nov 1, 2021 to Oct 31, 2022	4.10 GJ/ day

Risk Management Contracts

(\$ 000s)	Three months		Nine months	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Risk management contracts				
Realized gain (loss)	(4,856)	(1,524)	(10,732)	941
Unrealized gain (loss)	1,762	1,141	(8,158)	(13)
	(3,094)	(383)	(18,890)	928

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 period ended September 30, 2021.

Product	Type of contract	Volume	Term	Contract price (\$)
Oil	Financial collar -WTI	500 BBL/day	Jan 1, 2021 to Dec 31, 2021	37.00 to 48.00 USD/BBL
Oil	Financial collar -WTI	500 BBL/day	Jan 1, 2021 to Dec 31, 2021	36.00 to 48.75 USD/BBL
Oil	Financial collar -WTI	250 BBL/day	Jan 1, 2021 to Dec 31, 2021	36.00 to 48.90 USD/BBL
Oil	Financial collar -WTI	250 BBL/day	Jan 1, 2021 to Dec 31, 2021	36.00 to 50.05 USD/BBL
Oil	Financial collar -WTI	250 BBL/day	Jan 1, 2021 to Dec 31, 2021	38.00 to 50.50 USD/BBL
Oil	Financial collar -WTI	1,000 BBL/day	Jan 1, 2022 to Mar 31, 2022	48.00 to 64.60 USD/BBL
Oil	Financial collar -WTI	500 BBL/day	Jan 1, 2022 to Mar 31, 2022	48.00 to 68.00 USD/BBL
Oil	Financial collar -WTI	500 BBL/day	Jan 1, 2022 to Mar 31, 2022	48.00 to 68.50 USD/BBL
Oil	Financial collar -WTI	500 BBL/day	Apr 1, 2022 to Jun 30, 2022	48.00 to 68.90 USD/BBL
Oil	Financial collar -WTI	500 BBL/day	Apr 1, 2022 to Jun 30, 2022	48.00 to 73.10 USD/BBL
Oil	Financial collar -WTI	300 BBL/day	Apr 1, 2022 to Jun 30, 2022	48.00 to 79.75 USD/BBL
Oil	Financial collar -WTI	1,000 BBL/day	Jul 1, 2022 to Sept 30, 2022	48.00 to 75.75 USD/BBL
Oil	Financial collar -WTI	600 BBL/day	Jul 1, 2022 to Sept 30, 2022	48.00 to 81.15 USD/BBL
Oil	Fixed price - MSW differential	500 BBL/day	Jan 1, 2021 to Dec 31, 2021	(7.26) CAD/BBL
Oil	Fixed price - MSW differential	500 BBL/day	Jan 1, 2021 to Dec 31, 2021	(7.15) CAD/BBL
Oil	Fixed price - MSW differential	250 BBL/day	Jan 1, 2021 to Dec 31 2021	(8.10) CAD/BBL
Oil	Fixed price - MSW differential	250 BBL/day	Mar 1, 2021 to Dec 31 2021	(6.34) CAD/BBL
Oil	Fixed price - MSW differential	1,000 BBL/day	Jan 1, 2022 to Mar 31, 2022	(6.60) CAD/BBL
Oil	Fixed price - MSW differential	1,000 BBL/day	Apr 1, 2022 to Jun 30, 2022	(6.55) CAD/BBL
Oil	Fixed price - MSW differential	300 BBL/day	Apr 1, 2022 to Jun 30, 2022	(4.75) USD/BBL
Oil	Fixed price - MSW differential	1,000 BBL/day	Jul 1, 2022 to Sept 30, 2022	(5.90) CAD/BBL
Oil	Fixed price - MSW differential	600 BBL/day	Jul 1, 2022 to Sept 30, 2022	(4.65) USD/BBL
Gas	Fixed Price -AECO Daily	1,800 GJ/day	Jan 1, 2021 to Dec 31, 2021	2.24 GJ/ day

Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from interest bearing financial assets and liabilities that the Company uses. The principal exposure of the Company is on its borrowings which have a variable interest rate which gives rise to a cash flow interest rate risk.

Subsequent to Q3 2021, on October 20, 2021, the Company's debt facilities consist of a \$195,000,000 syndicated revolving credit facility, and a \$25,000,000 non-syndicated revolving credit facility, \$45,000,000 subordinated debt and \$59,000,000 in senior unsecured subordinated debentures. The borrowings under the total bank facilities are at bank prime plus or minus various percentages as well as by means of banker's acceptances ("BAs") within the Company's credit facility. Subordinated debt is at fixed interest rate of five percent in the first year and increases by one percent in subsequent years. The subordinated debentures is at a fixed interest rate of nine percent. The Company manages its exposure to interest rate risk on its floating interest rate debt through entering into various term lengths on its BAs but in no circumstances do the terms exceed six months.

Sensitivity Analysis

Based on historic movements and volatilities in the interest rate markets and management's current assessment of the financial markets, the Company believes that a one percent variation in the Canadian prime interest rate is reasonably possible over a 12 month period.

A one percent increase (decrease) in the Canadian prime rate would decrease (increase) both annual net earnings and comprehensive income by \$1,730,000.

Equity Price Risk

Equity price risk refers to the risk that the fair value of the investments and investment in related party will fluctuate due to changes in equity markets. Equity price risk arises from the realizable value of the investments that the Company holds which are subject to variable equity market prices which on disposition gives rise to a cash flow equity price risk. The Company will assume full risk in respect of equity price fluctuations.

Foreign Exchange Risk

The Company has no foreign operations and currently sells all of its product sales in Canadian currency. The Company however is exposed to currency risk in that crude oil is priced in US currency, then converted to Canadian currency. The Company currently has no outstanding risk management agreements. The Company will assume full risk in respect of foreign exchange fluctuations.

13. COMMITMENTS AND FINANCIAL LIABILITIES

The Company has the following maturity schedule for its financial liabilities and commitments:

(\$ 000s)	Recognized on	Less than	Over 1 year	Over 3 years	Over 5 years	Total
	Financial Statements	1 year	to 3 years	to 5 years	to 7 years	
Accounts payable and accrued liabilities	Yes - Liability	32,973	-	-	-	32,973
Due to related parties	Yes - Liability	12,884	-	-	-	12,884
Subordinated promissory note	Yes - Liability	7,604	-	-	-	7,604
Bank Debt	Yes - Liability	224,784	-	-	-	224,784
Subordinated debt	Yes - Liability	-	-	46,753	-	46,753
Firm service commitments	No	702	917	247	19	1,885
Office lease commitments	No	510	572	-	-	1,082
Total		279,457	1,489	47,000	19	327,965

The Company has entered into firm service gas transportation agreements in which the Company guarantees certain minimum volumes of natural gas will be shipped on various gas transportation systems. The terms of the various agreements expire in one to seven years. The future minimum payment amounts for the firm service gas transportation agreements are calculated using current tariff rates.

The Company also has non-cancellable office lease commitments for building and office equipment. The building and office equipment leases have an average remaining life of 2.1 years.

14. GOVERNMENT GRANTS

The Government of Alberta's Site Rehabilitation Program ("SRP") provides grant funding through service providers to abandon or remediate oil and gas sites. The Company derecognized approximately \$4,892,000 of asset retirement obligations as an in-kind grant (September 30, 2020 - \$Nil). The benefit of the in-kind grant is recognized through other income.

Canadian Emergency Wage Subsidy ("CEWS") is a federal program that allows eligible companies to receive a subsidy of employee wages, subject to a maximum per employee. During the nine month period ended September 30, 2021, the Company received \$159,000 (2020 - \$710,000), which resulted in a reduction of employee compensation.

15. SUBSEQUENT EVENTS

Subsequent to September 30, 2021 the Company entered into the following transactions;

i) Private Placement Debt Financing

On October 20, 2021, the Company successfully closed a brokered private placement debt financing (the "Initial Offering"). The Initial Offering consists of an aggregate 32,000 units of the Company with each unit being comprised of one senior unsecured debenture, with a face value of \$1,000 which bears interest at 9 percent per annum and has a four-year term, and 56 common share purchase warrants of Bonterra, with each warrant exercisable to acquire one common share of Bonterra at a price of \$7.75 per common share for a period of four years from October 20, 2021 and is subject to customary anti-dilution adjustment until October 20, 2025. Each unit was issued at a price of \$1,000 for gross proceeds to Bonterra of \$32 million. In conjunction with the Initial Offering the Company has also entered into agreements with the holders of its existing subordinated promissory note and due to related party loan (the "Subordinated Loans") to convert their principal amounts of an aggregate of \$19.5 million into units under the same terms and conditions as the subscribers under the Initial Offering. As part of the Initial Offering and Subordinated Loans, the CEO of Bonterra will be subscribed for 19,000 Units.

Concurrent with the closing of the Initial Offering, Bonterra entered into an agreement with the Agents providing for a separate offering of up to \$5 million of Units (the "Follow On Offering"), under the same terms and conditions as the Initial Offering. As part of the Follow On Offering, insiders of the Company will be given the option to subscribe for up to \$1 million in Units. On October 21, 2021, The Company announced an increase to the Follow On Offering to \$7.5 million of Units. The Follow On Offering is expected to close on or about November 10, 2021.

Corporate Information

Board of Directors

D. Michael G. Stewart - Chair
John J. Campbell
George F. Fink
Jacqueline R. Ricci
Rodger A. Tourigny
Stacey McDonald

Officers

George F. Fink, CEO
Robb D. Thompson, CFO and Corporate Secretary
Adrian Neumann, Chief Operating Officer
Brad A. Curtis, Senior VP, Business Development

Registrar and Transfer Agent

Odyssey Trust Company

Auditors

Deloitte LLP

Solicitors

Borden Ladner Gervais LLP

Bankers

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

Head Office

901, 1015 – 4th Street SW
Calgary, Alberta T2R 1J4
Telephone: 403.262.5307
Fax: 403.265.7488
Email: info@bonterraenergy.com

Website

www.bonterraenergy.com