

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.