

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following report dated November 8, 2022 is a review of the operations and current financial position for the three and nine months ended September 30, 2022 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, 2021 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 entities.

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; "LNG" refers to liquefied natural gas; 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

	2022				2021		
As at and for the periods ended (\$ 000s except \$ per share)	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial							
Revenue - oil and gas sales	88,827	116,674	91,542	79,202	64,457	59,163	48,794
Cash flow from operations	48,810	58,307	40,942	37,868	24,616	18,874	14,745
Per share - basic	1.35	1.62	1.16	1.11	0.73	0.56	0.44
Per share - diluted	1.30	1.53	1.11	1.07	0.71	0.55	0.43
Net earnings (loss) ⁽¹⁾	17,696	33,544	10,519	16,333	7,296	157,354	(1,684)
Per share - basic	0.49	0.93	0.30	0.48	0.22	4.68	(0.05)
Per share - diluted	0.47	0.88	0.29	0.46	0.21	4.55	(0.05)
Capital expenditures	20,452	14,506	32,169	17,636	18,578	7,607	23,461
Total assets	948,259	934,303	965,969	945,721	939,835	948,260	748,543
Net debt	187,128	211,284	260,670	267,179	307,729	319,310	328,506
Shareholders' equity	461,199	442,653	405,148	392,019	361,590	353,431	195,393
Operations							
Light oil (barrels per day)	6,649	7,623	7,356	7,659	6,948	7,370	6,834
NGLs (barrels per day)	1,206	1,151	996	1,105	928	996	1,025
Conventional natural gas (MCF per day)	31,052	33,323	29,609	30,276	27,995	26,057	24,301
Total BOE per day	13,031	14,328	13,287	13,810	12,542	12,709	11,909

⁽¹⁾ In Q2 2021, with stronger forward benchmark prices since the impact of COVID-19 beginning in March 2020, the Company recorded a \$203,197,000 impairment reversal on its Alberta cash generating unit's ("CGU") oil and gas assets less \$47,149,000 deferred income tax expense.

	2020			
As at and for the periods ended (\$ 000s except \$ per share)	Q4	Q3	Q2	Q1
Financial				
Revenue - oil and gas sales	31,761	29,155	22,171	38,555
Cash flow from (used in) operations	(1,199)	6,370	4,429	22,473
Per share - basic	(0.04)	0.19	0.13	0.67
Per share - diluted	(0.04)	0.19	0.13	0.67
Net loss ⁽¹⁾	(11,071)	(5,211)	(5,954)	(284,653)
Per share - basic	(0.33)	(0.16)	(0.18)	(8.53)
Per share - diluted	(0.33)	(0.16)	(0.18)	(8.53)
Capital expenditures	19,064	2,819	104	21,741
Total assets	731,859	722,910	732,462	743,533
Net debt	315,573	295,168	299,445	300,688
Shareholders' equity	196,633	207,325	212,342	218,211
Operations				
Light oil (barrels per day)	5,371	5,355	5,553	7,058
NGLs (barrels per day)	960	1,064	1,104	999
Conventional natural gas (MCF per day)	22,560	21,510	21,142	23,864
Total BOE per day	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.

Business Environment and Sensitivities

Bonterra's financial results may be 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.

	Q3-2022	Q2-2022	Q1-2022	Q4-2021	Q3-2021	Q2-2021	Q1-2021	Q4-2020
Crude oil								
WTI (U.S.\$/bbl)	91.56	108.41	94.29	77.19	70.56	66.07	57.84	42.66
WTI to MSW Stream Index								
Differential (U.S.\$/bbl) ⁽¹⁾	(2.05)	(0.50)	(2.96)	(3.10)	(4.08)	(3.11)	(5.24)	(4.07)
Foreign exchange								
U.S.\$ to Cdn\$	1.3059	1.2766	1.2662	1.2601	1.2602	1.2280	1.2663	1.3031
Bonterra average realized								
oil price (Cdn\$/bbl)	111.44	126.97	110.41	85.04	78.42	71.49	61.76	47.16
Natural gas								
AECO (Cdn\$/mcf)	4.14	7.20	4.72	4.63	3.58	3.08	3.14	2.63
Bonterra average realized								
gas price (Cdn\$/mcf)	4.73	6.76	4.80	4.93	3.94	3.37	3.44	3.02

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

WTI prices averaged \$91.56 USD per barrel in Q3 2022, an increase of 30 percent compared to the third quarter of 2021. The increase was driven by continuous improvements in demand, ongoing supply discipline and reduced capital investment from both OPEC+ and US shale producers, along with geopolitical risk factors. The combination of these factors has led to a significant decrease in global crude and crude product inventories, supporting a higher price environment.

In addition to the WTI benchmark price, the Company's realized crude oil price is impacted by the MSW Stream Index or Edmonton Par differential (the "Differential"). The Differential averaged (\$2.05) US per bbl in Q3 2022, an improvement of 50 percent compared to Q3 2021. Strong North American refining demand for sweet crude, and limited pipeline apportionment contributed to the improvement in the Differential in the third quarter of 2022. Longer term, the Trans Mountain Expansion is expected to increase Canada's export capabilities and is anticipated to have a positive effect on the movement and pricing of Canadian barrels.

AECO daily spot prices averaged \$4.14 per mcf in the third quarter of 2022, an increase of 16 percent over the third quarter of 2021. The increase is mainly due to increased global demand for North American produced gas, which has contributed to lower natural gas inventories in North America, including Western Canada.

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 2022⁽¹⁾

Impact on cash flow	Change (\$)	\$000s	\$ per share ⁽²⁾
Realized crude oil price (\$/bbl)	1.00	2,210	0.06
Realized natural gas price (\$/mcf)	0.10	1,015	0.03
U.S.\$ to Canadian \$ exchange rate	0.01	1,967	0.05

⁽¹⁾ This analysis uses current royalty rates, annualized estimated average production of 13,500 BOE per day and no changes in working capital.

⁽²⁾ Based on annualized basic weighted average shares outstanding of 35,914,159.

Business Overview, Strategy and Key Performance Drivers

Bonterra believes that the Company has established a strong position to continue pursuing profitable development of its high-quality, light oil weighted asset base and remains focused on maximizing the Company's financial position, reducing net debt and creating long term value. To date in 2022, higher commodity prices have prevailed as a result of global supply and demand dynamics for crude oil and natural gas, stemming largely from a lack of capital being invested in the sector, along with supply chain issues related to the COVID-19 pandemic and the significant geopolitical events in Europe.

The Company averaged 13,548 BOE per day of production for the first nine months of 2022, an increase of 1,159 BOE per day, or nine percent compared to the same period in 2021. Quarter-over-quarter, Bonterra's production decreased by 1,297 BOE per day, primarily driven by lower volumes associated with new production as Bonterra brought seven gross (7.0 net) operated wells onto production late in Q3 2022 compared to ten gross (9.9 net) operated wells that were placed on production early in Q2 2022. The Company expects annual production to be within the previously announced guidance range of 13,300 to 13,700 BOE per day with a revised 2022 capital expenditure budget range of \$75 million to \$80 million, largely due to additional infrastructure costs and inflationary pressures.

The Company has spent approximately 84 percent of the upper limit of its annual capital budget in the first nine months of 2022, or \$67.1 million. Of the total capital invested, \$48.9 million was directed to the drilling of 23 gross (22.7 net) operated wells and completing, equipping, tying-in and placing on production 28 gross (27.7 net) operated wells, with six of the completed and equipped wells having been drilled late in 2021. In addition, one of the operated wells drilled in the third quarter of 2022 will be completed, tied-in and placed on production in the fourth quarter. \$5.5 million of the capital program was directed to the construction of a wholly owned gas plant to resolve gas handling issues, and an additional \$13.0 million was directed to related infrastructure, recompletions and non-operated capital programs.

With support from the Alberta Site Rehabilitation Program ("SRP"), Bonterra successfully abandoned 105.9 net wells, 29.0 net pipeline segments and decommissioned 2.0 net battery sites during the first nine months of 2022. As the Company continues to execute its abandonment program through the current year, a further 41.4 net wells and associated pipelines that have no deemed future economic 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.

As part of the Company's ongoing efforts to diversify commodity pricing and to protect future cash flows, Bonterra has executed physical delivery sales and risk management contracts to the end of Q3 2023 on approximately 30 percent of its expected crude oil and natural gas production. For the next 12 months, Bonterra has secured a WTI price between \$48.00 USD to \$103.30 USD per bbl on 2,261 bbls per day, with a WTI to Edmonton par differential at prices ranging from approximately \$4.80 to \$6.05 per barrel on 1,123 bbls per day. In addition, the Company has secured natural gas prices between \$3.00 to \$5.00 on 9,674 GJ per day for the next 12 months.

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 production levels, 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 within 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,	
	2022		2022		2021		2022		2021	
	Gross ⁽¹⁾	Net ⁽²⁾								
Crude oil horizontal-operated	8	8.0	3	2.9	13	11.5	23	22.7	29	27.4
Crude oil horizontal-non-operated	3	0.4	-	-	-	-	9	1.1	-	-
Total	11	8.4	3	2.9	13	11.5	32	23.8	29	27.4
Success rate	100%		100%		100%		100%		100%	

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

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

During the first nine months of 2022, the Company drilled 23 gross (22.7 net) operated wells and completed, tied-in and placed on production 28 gross (27.7 net) operated wells, of which six gross (6.0 net) operated wells were drilled in the fourth quarter of 2021. The remaining one gross (1.0 net) operated well is expected to be tied-in and placed on production in the fourth quarter of 2022.

Production

	Three months ended						Nine months ended	
	September 30,		June 30,		September 30,		September 30,	
	2022		2022		2021		2022	
Crude oil (barrels per day)	6,649		7,623		6,948		7,207	7,051
NGLs (barrels per day)	1,206		1,151		928		1,119	983
Natural gas (MCF per day)	31,052		33,323		27,995		31,333	26,131
Average BOE per day	13,031		14,328		12,542		13,548	12,389

The Company averaged 13,548 BOE per day of production in the first nine months of 2022, compared to 12,389 BOE per day for the same period in 2021, an increase of 1,159 BOE per day or nine percent. The increase in production is largely due to the Company's increased drilling program and the reactivation of off-line wells given higher commodity prices. Production for the month of October 2022 averaged approximately 13,510 BOE per day, with three gross (3.0 net) operated wells to be placed on production in November 2022.

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,		June 30,		September 30,		September 30,	
	2022		2022		2021		2022	
Production volumes (BOE)	1,198,835		1,303,822		1,153,874		3,698,530	3,382,231
Gross production revenue	74.09		89.49		55.86		80.31	50.98
Realized loss on risk management	(2.59)		(4.63)		(4.21)		(4.23)	(3.17)
Royalties	(15.16)		(13.78)		(6.17)		(12.65)	(5.01)
Production costs	(20.33)		(16.22)		(14.45)		(17.88)	(15.00)
Field netback	36.01		54.86		31.03		45.55	27.80
General and administrative	(2.47)		(3.00)		(1.74)		(2.64)	(2.04)
Interest and other	(2.87)		(2.70)		(4.45)		(2.91)	(5.55)
Current income tax	(1.10)		(1.69)		-		(0.95)	-
Cash netback	29.57		47.47		24.84		39.05	20.21

Cash netbacks increased in the first nine months of 2022 compared to the same period of 2021 primarily due to higher realized commodity prices and lower interest expense from reduced debt. This was partially offset by increased royalties, production costs and realized losses on risk management contracts. Quarter-over-quarter cash netbacks decreased primarily due to lower commodity prices and an increase in royalties and production costs.

Oil and Gas Sales

	Three months ended			Nine months ended	
	September 30, 2022	June 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Revenue - oil and gas sales (\$ 000s)					
Light oil	68,166	88,080	50,127	229,342	136,061
NGL	7,155	8,086	4,172	20,893	10,682
Conventional natural gas	13,506	20,508	10,158	46,808	25,671
	88,827	116,674	64,457	297,043	172,414
Average realized prices:					
Light oil (\$ per barrel)	111.44	126.97	78.42	116.57	70.68
NGL (\$ per barrel)	64.45	77.23	48.86	68.41	39.82
Conventional natural gas (\$ per MCF)	4.73	6.76	3.94	5.47	3.60
Average (\$ per BOE)	74.09	89.49	55.86	80.31	50.98
Average BOE per day	13,031	14,328	12,542	13,548	12,389

Revenue from oil and gas sales in the first nine months of 2022 increased by \$124.6 million, or 72 percent, compared to the same period in 2021. This increase was primarily driven by a 65 percent increase in Bonterra's realized crude oil prices and a nine percent increase in average production volumes.

Bonterra's product split on a revenue basis was weighted approximately 84 percent to crude oil and NGLs during the first nine months of 2022.

Royalties

(\$ 000s)	Three months ended			Nine months ended	
	September 30, 2022	June 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Crown royalties	14,240	12,673	4,193	33,603	9,525
Freehold, gross overriding and other royalties	3,934	5,287	2,926	13,191	7,410
Total royalties	18,174	17,960	7,119	46,794	16,935
Crown royalties - percentage of revenue	16.0	10.9	6.5	11.3	5.5
Freehold, gross overriding and other royalties - percentage of revenue	4.4	4.5	4.5	4.4	4.3
Royalties - percentage of revenue	20.4	15.4	11.0	15.7	9.8
Royalties \$ per BOE	15.16	13.78	6.17	12.65	5.01

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-month period ended September 30, 2022, increased by \$7.64 per BOE compared to the same period of 2021. The increase was primarily the result of commodity price improvements.

Quarter-over-quarter royalties increased by \$1.38 per BOE, primarily due to a 10 percent increase in the Alberta Crown reference price for light sweet oil, which increased the Alberta Crown royalty rates for crude oil in the third quarter of 2022 compared to the second quarter of 2022.

Production Costs

(\$ 000s except \$ per BOE)	Three months ended			Nine months ended	
	September 30, 2022	June 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Production costs	24,366	21,153	16,676	66,134	50,719
\$ per BOE	20.33	16.22	14.45	17.88	15.00

Production costs for the first nine months of 2022 increased from the same period in 2021 primarily due to increased production and maintenance costs along with increased well reactivations as the Company expanded the number of service rigs to four in the current period compared to two in the same period in the prior year. Bonterra also experienced additional costs with the Company's pipeline integrity program. The Company intends to spend capital to consolidate pipeline and thereby reducing pipeline maintenance costs in the new year. On a per BOE basis, production costs also increased due to maintaining the same level of activity while having shut-in production from gas handling issues, combined with general inflationary pressures and escalating fuel and power prices.

Production costs increased quarter-over-quarter primarily due to an 86 percent increase in power rates. In addition to maintaining the Company's well maintenance program, Bonterra experienced increased road and facility maintenance from seasonal repairs and turnarounds which tend to occur more frequently in the third quarter after spring break-up.

Other Income

(\$ 000s)	Three months ended			Nine months ended	
	September 30, 2022	June 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Investment income	50	42	5	106	29
Administrative income	174	221	124	499	292
Government grant in-kind	791	937	1,470	2,403	4,892
Deferred consideration	261	309	321	865	928
Realized loss on risk management contracts	(3,103)	(6,036)	(4,856)	(15,633)	(10,732)
Unrealized gain (loss) on risk management contracts	11,046	3,675	1,762	5,611	(8,158)
	9,219	(852)	(1,174)	(6,149)	(12,749)

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, 2022 totaled \$2,025,000 (September 30, 2021 - \$909,000). There were no dispositions during the period ended September 30, 2022 or September 30, 2021. 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 Site Rehabilitation Program ("SRP") provides grant funding through service providers to abandon or remediate oil and gas sites. The Company derecognized approximately \$2.4 million of asset retirement obligations as an in-kind grant in the first nine months of 2022 (September 30, 2021 - \$4.9 million). 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, 2022 to September 30, 2023 and are for a total of 643,850 barrels of light crude oil (approximately 1,764 barrels of oil per day for the next 12 months) at fixed

WTI prices ranging from \$48.00 USD to \$103.30 USD per barrel, with a fixed differential from WTI to Edmonton Par prices for 365,000 barrels of oil (approximately 1,000 barrels of oil per day) at prices ranging from approximately \$4.80 to \$6.05 per barrel. In addition, the Company has entered into financial derivatives on natural gas prices between \$4.00 and \$5.00 on 4,670 GJ per day for the first nine months of 2023. 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, 2022	June 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Employee compensation	1,997	2,610	1,341	6,302	3,463
Office and administrative - recurring	960	1,304	670	3,476	2,488
Total G&A recurring	2,957	3,914	2,011	9,778	5,951
Office and administrative - nonrecurring	-	-	-	-	946
Total G&A	2,957	3,914	2,011	9,778	6,897
\$ per BOE recurring	2.47	3.00	1.74	2.64	1.76
\$ per BOE nonrecurring	-	-	-	-	0.28
\$ per BOE total	2.47	3.00	1.74	2.64	2.04

Employee compensation expense increased by \$2.8 million for the first nine months of 2022 compared to 2021. The increase is primarily due to a greater bonus accrual due to increased net earnings before taxes.

Recurring office and administrative expense increased for the first nine months of 2022 compared to 2021 due to an increase in technical and advisory consulting fees, insurance premiums and bank renewal fees.

Nonrecurring office and administrative costs reflect 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, 2022	June 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Interest on bank debt and subordinated debt	2,348	2,450	4,985	7,362	18,269
Other interest	1,328	1,327	281	3,983	828
Interest expense	3,676	3,777	5,266	11,345	19,097
\$ per BOE	3.07	2.90	4.56	3.07	5.65
Accretion of decommissioning liabilities	1,179	634	822	2,597	2,401
Accretion on subordinated debentures	603	610	-	1,730	-
Total finance costs	5,458	5,021	6,088	15,672	21,498

Interest on bank debt decreased in 2022 compared to the 2021 comparative period due to a decrease of approximately 50 percent in the average bank debt outstanding as well as a decrease in interest rates stemming from the reduction in 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. With reduced debt and increased cash flow, the Company was able to remove the term portion of the facility on its bank debt which had a less favourable interest rate grid. Bank debt 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.

Subordinated debt interest relates to the Business Development Bank of Canada (“BDC”) second lien non-revolving four-year term loan (the “BDC Loan”). The Company drew \$45 million on the BDC Loan and the first year of interest was added to the principal for a total owing of \$47 million. The BDC Loan bears interest at six percent and increases by one percent each year on the anniversary date of November 13. For more information about the subordinated debt, refer to Note 5 of the September 30, 2022 condensed financial statements.

In the fourth quarter of 2021, \$19.5 million of amounts due to a related party and a subordinated promissory note were exchanged for senior unsecured subordinated debentures. In addition, a further \$39.5 million of these debentures were issued for total proceeds of \$59 million. As at September 30, 2022, the Company had a total of 59,000 senior unsecured subordinated debenture units (a “Unit”) outstanding. Each Unit is comprised of: (i) one senior unsecured debenture with a par value of \$1,000 per note and bearing interest at 9.0 percent per annum, which are payable semi-annually; and (ii) 56 common share purchase warrants of Bonterra (“Warrants”). The debentures mature on October 20, 2025 and all or a portion of the principal amount outstanding can be repaid without penalty after October 20, 2024, however, all interest owing to the maturity date must be paid.

The unsecured subordinated debentures were determined to be a compound instrument with a debt and equity component. The fair value of the debt component of the \$59,000,000 in debentures were determined on issuance to be 15.6 percent using the effective interest rate method, by discounting future payments of interest and principal with the residual value allocated to Warrants and issue costs. The value of the debt will accrete up to the principal balance at maturity. For more information about unsecured subordinated debentures, please see Note 6 of the September 30, 2022 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 \$938,000.

Share-Option Compensation

(\$ 000s)	Three months ended			Nine months ended	
	September 30, 2022	June 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Share-option compensation	525	479	292	1,278	836

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.

Based on the outstanding options as of September 30, 2022, the Company has an unamortized expense of \$2,793,000, of which \$503,000 will be amortized for the remainder of 2022; \$1,505,000 in 2023; \$676,000 in 2024 and \$109,000 thereafter. For more information about options issued and outstanding, refer to Note 9 of the September 30, 2022, condensed financial statements.

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

(\$ 000s)	Three months ended			Nine months ended	
	September 30, 2022	June 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Depletion and depreciation	23,697	22,791	21,579	69,022	54,224
Impairment (reversal of impairment)	-	-	-	-	(203,197)

The provision for depletion and depreciation (“D&D”) increased in the first nine months of 2022 compared to the same period in 2021 primarily due to increased capital spending, higher production volumes and a greater carrying value to deplete from a \$203.2 million impairment reversal on Bonterra’s Alberta cash generating unit (“CGU”) property, plant and equipment (“PP&E”) in the second quarter of 2021.

Taxes

The Company recorded a deferred income tax expense of \$16.9 million in Q3 2022 (Q3 2021 – \$48.8 million). The decrease in deferred income tax expense for the first nine months of 2022 compared to 2021 was primarily due to a decrease in earnings before income taxes, as in Q2 2021 the Company recorded a \$203 million impairment reversal. The Company also recorded \$3.5 million of current income tax expense primarily for the province of Alberta.

For additional information regarding income taxes, see Note 8 of the September 30, 2022 condensed financial statements.

Net Earnings

(\$ 000s except \$ per share)	Three months ended			Nine months ended	
	September 30, 2022	June 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Net earnings	17,696	33,544	7,296	61,759	162,966
Adjust for:					
Reversal of impairment	-	-	-	-	(203,197)
Deferred tax on reversal of impairment	-	-	-	-	46,796
Adjusted net earnings	17,696	33,544	7,296	61,759	6,565
\$ net earnings per share - basic	0.49	0.93	0.22	1.73	4.84
\$ net earnings per share - diluted	0.47	0.88	0.21	1.65	4.72
\$ adjusted net earnings per share - basic	0.49	0.93	0.22	1.73	0.20
\$ adjusted net earnings per share - diluted	0.47	0.88	0.21	1.65	0.19

Net earnings for the first nine months of 2022 decreased by \$101.2 million compared to 2021. The decrease in net earnings was primarily attributed to an impairment reversal less the deferred income tax on the impairment reversal recorded in Q2 2021. Adjusting net earnings for the impairment reversal and corresponding deferred tax, net earnings increased by \$55.2 million, primarily due to an increase in oil and gas sales and a decrease in finance costs and loss on risk management contracts. This increase in adjusted net earnings was partially offset by an increase in royalties, production costs and an increased income tax provision.

The quarter-over-quarter decrease in net earnings is primarily due to a decrease in oil and gas sales and an increase in royalties and production costs, which was partially offset by an increase in the unrealized gain on risk management contracts and a decrease in the deferred tax provision.

Other Comprehensive Income (Loss)

Other comprehensive income for the first nine months of 2022 consists of an unrealized gain before tax on investments (including investment in a related party) of \$1,133,000 relating to an increase in the investments' fair value (September 30, 2021 –\$615,000). Realized gains result in decreases to 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, 2022	June 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Cash flow from operations	48,810	58,307	24,616	148,059	58,235
\$ per share - basic	1.35	1.62	0.73	4.14	1.73
\$ per share - diluted	1.30	1.53	0.71	3.96	1.69

In the first nine months of 2022, cash flow from operations increased by \$89.8 million compared to the same period in 2021. This was primarily due to an increase in commodity prices and production volumes and a decrease in interest expense, which was partially offset by an increase in royalties, production costs and higher realized risk management contract losses.

Quarter-over-quarter, cash flow from operations decreased due to lower realized commodity prices and increased royalty and production costs, and was partially offset by an increase in non-cash working capital.

Related Party Transaction

Bonterra holds 1,034,523 (December 31, 2021 – 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 at September 30, 2022 of \$1,769,000 (December 31, 2021 – \$703,000).

Liquidity and Capital Resources

Net Debt to Cash Flow from Operations

Bonterra continues to focus on reducing overall debt while managing its cash flow and capital expenditures. The Company’s net debt to 12-month trailing cash flow ratio as of September 30, 2022 was 1.0 to 1 times (versus 2.8 to 1 times at December 31, 2021). The decreased net debt to cash flow ratio is the result of an increase in the Company’s 12-month trailing cash flow primarily driven by rising commodity prices and production volumes. Average net debt for the first nine months of 2022 decreased by \$87 million compared to the same period of 2021, related to a 154 percent increase in cash flow due to higher commodity prices and production volumes. In addition, the fair value of the Warrants of \$9.8 million and issue costs of \$2.2 million reduced the carrying value of the subordinated debentures issued in Q4 2021, which reduced net 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, 2022	June 30, 2022	December 31, 2021	September 30, 2021
Working capital deficiency	89,450	115,536	172,552	260,976
Subordinated debt and subordinated debentures	97,678	95,748	94,627	46,753
Net Debt	187,128	211,284	267,179	307,729

Net debt is a combination of subordinated debt, subordinated debentures and working capital. As of September 30, 2022, the Company’s bank facility has a maturity date of November 30, 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 at September 30, 2022 decreased by \$120.6 million to \$187.1 million compared to \$307.7 million at September 30, 2021, primarily due to increased cash flow resulting from rising commodity prices and higher production volumes. With commodity prices remaining strong to date in 2022, the Company intends to continue its focus on net debt reduction.

Working capital is calculated as current assets less current liabilities. Included in the working capital deficiency as at September 30, 2022 is \$74.5 million of bank debt.

Financial Risk Management

Bonterra is exposed to market risk for the oil and gas produced by the Company. 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 largely affected by North American

supply and demand fundamentals. In order to manage commodity risk, 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 also 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 for the next 12 months. 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, 2022, condensed financial statements.

Capital Expenditures

During the nine months ended September 30, 2022, the Company incurred capital expenditures of \$67.1 million (September 30, 2021 - \$49.6 million). Of the total capital invested, \$48.6 million was directed to the drilling of 23 gross (22.7 net) operated wells and the completion, equip and tie-in of 29 gross (28.6 net) operated wells, of which six of the completed and equipped wells were drilled in 2021. All of the wells drilled were placed on production in the nine months of 2022, except one which came on production in Q4 2022. The Company also spent \$5.5 million on a wholly owned gas plant and an additional \$13.0 million was spent primarily on related infrastructure and recompletions.

Decommissioning Liabilities

Bonterra participates in the province of Alberta's Voluntary Closure Target program ("VCT") to reduce abandonment and reclamation costs and liabilities. This program provides numerous incentives to efficiently manage decommissioning liabilities that reduce overall cost. The Company's mandatory target under the VCT program for 2022 is \$3.7 million of which \$4.5 million has been spent in the first nine months excluding any Alberta SRP funding. The VCT program also sets an upper limit voluntary spend target that comes with additional incentives. The voluntary target under the VCT is set at \$3.9 million for 2022 and Bonterra has exceeded this amount.

The Company revised its abandonment costs with regards to older vintage wells and increased the total uninflated and undiscounted decommissioning liability to \$179.8 million (December 31, 2021 - \$153.1 million). The change in the Company's decommissioning liability for these wells was due to a change in the estimated scope of work to abandon these wells and the significant cost increases due to recent inflation. Offsetting the increase in the decommissioning liability from the beginning of the year, was a 0.56% increase in the risk-free discount rate. As a result, the decommissioning liability went from \$135.8 million for December 31, 2021 to \$129.7 million for September 30, 2022, which is approximately equal to decommissioning liabilities settled less accretion.

Bonterra also paid \$2.2 million in abandonment deposits primarily in its non-core area in British Columbia. These deposits are refundable upon abandonment and reclamation of the area or further development. For more information see Note 7 of the September 30, 2022 condensed financial statements.

Bank Debt

Bank debt represents the outstanding amounts drawn on the Company's bank facility. As at September 30, 2022, the Company has a total bank facility of \$125.0 million, comprised of a \$110.0 million syndicated revolving credit facility and a \$15.0 million non-syndicated revolving facility. The amount drawn under the total bank facility at September 30, 2022 was \$74.5 million (December 31, 2021 - \$162.9 million). 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 November 29, 2022, with a maturity date of November 30, 2022. Subsequent to September 30, 2022, the Company has fulfilled an additional step-down commitment of \$10 million on October 31, 2022, reducing the total available bank facility to \$115.0 million. The loan reduction will be applied to reduce the amount available under the syndicated revolving credit facility.

Under the bank facility, 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 120 percent of the forecasted capital expenses.

As at September 30, 2022, 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, 2022.

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, Bonterra 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 12 months. There can be no assurance that the next bank review, which is currently underway, 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 4 of the September 30, 2022 condensed financial statements.

The amount available for borrowing under the bank facility is reduced by outstanding letters of credit. Letters of credit totaling \$1.6 million were issued as at September 30, 2022 (December 31, 2021 - \$1.4 million). Security for the bank facility consists of various floating demand debentures totaling \$750 million (December 31, 2021 - \$750 million) 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, 2021	35,000,952	772,781
Issued pursuant to the Company's share option plan	686,077	870
Transfer from contributed surplus to share capital		565
Issued pursuant to the exercise of warrants	551,000	4,270
Transfer from warrants to share capital		1,212
Balance, September 30, 2022	36,238,029	779,698

Total of 2,753,000 Warrants are outstanding as at September 30, 2022, entitling the holder to purchase one Common Share of Bonterra for each Warrant at a price of \$7.75, until October 20, 2025.

The Company provides a stock option plan for its directors, officers and employees. Under the plan, the Company may grant options for up to 3,623,802 (December 31, 2021 – 3,500,095) 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 warrants and options outstanding, see Note 9 of the September 30, 2022, condensed financial statements.

Quarterly Financial Information

	2022				2021		
For the periods ended (\$ 000s except \$ per share)	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue - oil and gas sales	88,827	116,674	91,542	79,202	64,457	59,163	48,794
Cash flow from operations	48,810	58,307	40,942	37,868	24,616	18,874	14,745
Net earnings (loss)	17,696	33,544	10,519	16,333	7,296	157,354	(1,684)
Per share - basic	0.49	0.93	0.30	0.48	0.22	4.68	(0.05)
Per share - diluted	0.47	0.88	0.29	0.46	0.21	4.55	(0.05)

	2020			
For the periods ended (\$ 000s except \$ per share)	Q4	Q3	Q2	Q1
Revenue - oil and gas sales	31,761	29,155	22,171	38,555
Cash flow from operations	(1,199)	6,370	4,429	22,473
Net earnings (loss)	(11,071)	(5,211)	(5,954)	(284,653)
Per share - basic	(0.33)	(0.16)	(0.18)	(8.53)
Per share - diluted	(0.33)	(0.16)	(0.18)	(8.53)

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 for 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 were significantly higher than other quarters due to an impairment provision and reversal on the Company's Alberta CGU. More recent quarters' results have also been positively affected by the rise in oil and natural gas prices primarily due to current geopolitical events.

Contractual Obligations and Commitments

At September 30, 2022, Bonterra's total contractual obligations and commitments were \$257,345,000. These include obligations and commitments in place as of December 31, 2021, changes in accrued interest in the period, as well as additional firm service commitments entered into during the nine months ended September 30, 2022. For more information, refer to Note 13 "Commitments and Financial Liabilities" of the September 30, 2022, condensed financial statements.

Off-Balance Sheet Financing

Bonterra does not have any guarantees or off-balance sheet arrangements that have been excluded from the annual statement of financial position or balance sheet other than commitments disclosed in Note 13 of the September 30, 2022 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 servicing which may limit the 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 resulted in volatility and disruptions in regular business operations, supply chains and financial markets. COVID-19 also posed 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 the Company's Annual Information Form for the year ended December 31, 2021, which can be accessed on its 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 habitats, as well as safety risks such as personal injury. The Company conducts its operations while ensuring it protects the environment, 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

Bonterra's exploration and production facilities and other operations and activities emit greenhouse gasses ("GHG") which require the Company 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 Bonterra's effects. The direct or indirect costs of compliance with GHG-related regulations may have a material adverse effect on the Company's business, financial condition, results of operations and prospects. Some of its 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 the Company's Annual Information Form for the year ended December 31, 2021, which can be accessed on its website at 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; cyber security; impact of COVID-19; 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, 2022 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, 2022.

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