

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, 2022	December 31, 2021
Assets			
Current			
Accounts receivable		25,644	24,215
Crude oil inventory		1,024	988
Prepaid expenses		6,231	5,922
Risk management contract		1,044	-
Investments		256	188
		34,199	31,313
Investment in related party		1,769	703
Exploration and evaluation assets		4,563	1,994
Property, plant and equipment	3	898,867	902,850
Investment tax credit receivable		8,861	8,861
		948,259	945,721
Liabilities			
Current			
Accounts payable and accrued liabilities		48,060	35,194
Risk management contract		-	4,567
Bank debt	4	74,524	162,945
Deferred consideration		1,065	1,159
		123,649	203,865
Subordinated debt	5	47,261	47,268
Subordinated debentures	6	50,417	47,359
Deferred consideration		9,319	10,089
Decommissioning liabilities	7	129,692	135,815
Deferred tax liability	8	126,722	109,306
		487,060	553,702
Shareholders' equity			
Share capital	9	779,698	772,781
Contributed surplus		32,312	31,599
Warrants	9	6,053	7,265
Accumulated other comprehensive income (loss)		782	(221)
Deficit		(357,646)	(419,405)
		461,199	392,019
		948,259	945,721
Commitments and contingencies	13		
Subsequent events	4, 12		

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 2022	2021	Nine months 2022	2021
Revenue					
Oil and gas sales, net of royalties	10	70,653	57,338	250,249	155,479
Other income	14	1,015	1,599	3,008	5,213
Deferred consideration		261	321	865	928
Gain (loss) on risk management contracts	12	7,943	(3,094)	(10,022)	(18,890)
		79,872	56,164	244,100	142,730
Expenses					
Production		24,366	16,676	66,134	50,719
Office and administration		960	670	3,476	3,434
Employee compensation		1,997	1,341	6,302	3,463
Finance costs	11	5,458	6,088	15,672	21,498
Share-option compensation		525	292	1,278	836
Depletion and depreciation	3	23,697	21,579	69,022	54,224
Impairment (reversal of impairment)	3	-	-	-	(203,197)
		57,003	46,646	161,884	(69,023)
Earnings before income taxes		22,869	9,518	82,216	211,753
Taxes					
Current income tax expense	8	1,322	-	3,527	-
Deferred income tax expense	8	3,851	2,222	16,930	48,787
		5,173	2,222	20,457	48,787
Net earnings for the period		17,696	7,296	61,759	162,966
Other comprehensive income					
Unrealized gain on investments		239	346	1,133	615
Deferred taxes on unrealized gain on investments		(27)	(40)	(130)	(71)
Other comprehensive income for the period		212	306	1,003	544
Total comprehensive income for the period		17,908	7,602	62,762	163,510
Net earnings per share - basic	9	0.49	0.22	1.73	4.84
Net earnings per share - diluted	9	0.47	0.21	1.65	4.72
Comprehensive income per share - basic	9	0.50	0.23	1.75	4.86
Comprehensive income per share - diluted	9	0.48	0.22	1.68	4.73

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	
		2022	2021	2022	2021
Operating activities					
Net earnings		17,696	7,296	61,759	162,966
Items not affecting cash					
Deferred income taxes expense		3,851	2,222	16,930	48,787
Share-option compensation		525	292	1,278	836
Investment income		(50)	(5)	(106)	(29)
Finance costs		5,458	6,088	15,672	21,498
Unrealized (gain) loss on risk management contracts	12	(11,046)	(1,762)	(5,611)	8,158
Deferred consideration		(261)	(321)	(865)	(928)
Depletion and depreciation	3	23,697	21,579	69,022	54,224
Government grant in-kind	14	(791)	(1,470)	(2,403)	(4,892)
Impairment (reversal of impairment)		-	-	-	(203,197)
Decommissioning expenditures		(1,334)	(565)	(4,505)	(3,107)
Interest paid	11	(2,349)	(4,400)	(10,024)	(16,677)
Changes in non-cash working capital accounts	11	13,414	(4,338)	6,912	(9,404)
Cash provided by operating activities		48,810	24,616	148,059	58,235
Financing activities					
Decrease of bank debt		(36,952)	(19,537)	(88,421)	(27,471)
Subordinated debt		-	-	-	17,000
Proceeds from warrants exercised		-	-	4,270	-
Stock option proceeds		113	161	870	301
Cash used in financing activities		(36,839)	(19,376)	(83,281)	(10,170)
Investing activities					
Investment income received		50	5	106	29
Exploration and evaluation expenditures		(2,124)	(32)	(2,569)	(1,487)
Property, plant and equipment expenditures	3	(18,328)	(18,546)	(64,558)	(48,159)
Changes in non-cash working capital accounts	11	8,431	13,333	2,243	1,552
Cash used in investing activities		(11,971)	(5,240)	(64,778)	(48,065)
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 9)	Share capital (Note 9)	Contributed surplus ⁽¹⁾	Warrants	Accumulated other comprehensive income (loss) ⁽²⁾	Deficit	Total shareholders' equity
January 1, 2021	33,511,316	765,415	30,672	-	(750)	(598,704)	196,633
Share-option compensation			836				836
Exercise of options	127,581	301					301
Transfer to share capital on exercise of options		120	(120)				-
Shares issued for subordinated promissory note interest	100,211	310					310
Comprehensive income					544	162,966	163,510
September 30, 2021	33,739,108	766,146	31,388	-	(206)	(435,738)	361,590
Share-option compensation			259				259
Shares issued for subordinated promissory note interest	18,685	104					104
Exercise of options	56,159	77					77
Transfer to share capital on exercise of options		48	(48)				-
Issuance of warrants				9,810			9,810
Deferred tax on issuance of warrants				(2,259)			(2,259)
Share issue costs net of tax		(241)		(286)			(527)
Issuance of flow through shares	1,187,000	7,003					7,003
Premium on flow through shares		(356)					(356)
Comprehensive income (loss)					(15)	16,333	16,318
December 31, 2021	35,000,952	772,781	31,599	7,265	(221)	(419,405)	392,019
Share-option compensation			1,278				1,278
Exercise of options	686,077	870					870
Transfer to share capital on exercise of options		565	(565)				-
Exercise of warrants	551,000	4,270					4,270
Transfer to share capital on exercise of warrants		1,212		(1,212)			-
Comprehensive income					1,003	61,759	62,762
September 30, 2022	36,238,029	779,698	32,312	6,053	782	(357,646)	461,199

⁽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, 2022 and December 31, 2021 and for the nine months ended September 30, 2022 and September 30, 2021 (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 8, 2022.

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 2021 audited annual financial statements, except as denoted below. These condensed financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the 2021 audited annual financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

3. PROPERTY, PLANT AND EQUIPMENT

Cost (\$ 000s)	Oil and gas properties	Production facilities	Furniture fixtures & other equipment	Total property plant & equipment
Balance at December 31, 2021	1,508,050	390,725	2,310	1,901,085
Additions	44,837	19,581	140	64,558
Adjustment to decommissioning liabilities	409	-	-	409
Balance at September 30, 2022	1,553,296	410,306	2,450	1,966,052
Accumulated depletion and depreciation (\$ 000s)	Oil and gas properties	Production facilities	Furniture fixtures & other equipment	Total property plant & equipment
Balance at December 31, 2021	(815,411)	(180,912)	(1,912)	(998,235)
Depletion and depreciation	(56,969)	(11,986)	(67)	(69,022)
Disposal and other	72	-	-	72
Balance at September 30, 2022	(872,308)	(192,898)	(1,979)	(1,067,185)
Carrying amounts as at: (\$ 000s)				
December 31, 2021	692,639	209,813	398	902,850
September 30, 2022	680,988	217,408	471	898,867

There were no indicators of impairment losses or reversals identified for the nine months ended September 30, 2022.

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.

4. BANK DEBT

As at September 30, 2022, the Company has a total bank facility of \$125,000,000 (December 31, 2021 - \$210,000,000), comprised of a \$110,000,000 syndicated revolving credit facility, and a \$15,000,000 non-syndicated revolving credit facility. The amount drawn under the total bank facility at September 30, 2022 was \$74,524,000 (December 31, 2021 - \$162,945,000). The amounts borrowed under the total bank facility bear interest at a floating rate based on the applicable Canadian prime rate or Banker's Acceptance rate, plus between 2.00 percent and 7.00 percent, depending on the type of borrowing and the Company's consolidated debt to EBITDA ratio. EBITDA is defined as net income for the period excluding finance costs, provision for current and deferred taxes, depletion and depreciation, share-option compensation, gain or loss on sale of assets and impairment of assets. The terms of the total revolving bank facility provide that the loan facility is revolving to November 29, 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 \$115,000,000. The loan reductions will be applied to reduce the amount available under the syndicated revolving credit facility.

The amount available for borrowing under the bank facility is reduced by outstanding letters of credit. Letters of credit totaling \$1,595,000 were issued as at September 30, 2022 (December 31, 2021 - \$1,445,000). Security for the bank facility consists of various floating demand debentures totaling \$750,000,000 (December 31, 2021 - \$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, 2022, Bonterra was in compliance with all financial covenants on its total bank facility.

Under the Company's current credit agreement, it 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 forecasted capital expenditures.

5. SUBORDINATED DEBT

As at September 30, 2022, Bonterra had \$47,261,000 (December 31, 2021 - \$47,268,000) outstanding on a second lien non-revolving term facility due November 13, 2024 from the Business Development Bank of Canada (the "BDC"), through the Business Credit Availability Program (the "BCAP"). The amount drawn under the BCAP facility as at September 30, 2022 was \$45,000,000 (December 31, 2021 - \$45,000,000). Interest owing of \$2,261,000 under the BCAP facility is accrued and added to the principal at five percent for the first year from the effective date of November 13, 2020. Thereafter 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 on the BCAP facility during the first nine months of 2022 was \$nil (September 30, 2021 - \$1,592,000). Interest paid in the first nine months of 2022 was \$2,110,000 (September 30, 2021 - \$nil).

6. SUBORDINATED DEBENTURES

As at September 30, 2022 the Company has a total of 59,000 senior unsecured subordinated debenture units 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, 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. A total of 3,304,000 Warrants were issued, entitling the holder to purchase one Common Share of Bonterra for each Warrant at a price of \$7.75, until October 20, 2025. Interest paid in the first nine months of 2022 was \$2,655,000 (September 30, 2021 - \$nil). Interest accrued in the first nine months of 2022 was \$1,328,000 (September 30, 2021 - \$nil).

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 Warrants please see Note 9.

7. DECOMMISSIONING LIABILITIES

At September 30, 2022, the estimated total uninflated and undiscounted amount required to settle the decommissioning liabilities was \$179,784,000 (December 31, 2021- \$153,061,000). The provision has been calculated assuming a 2.0 percent inflation rate (December 31, 2021 – 2.0 percent inflation rate). These obligations will be settled at the end of the useful lives of the underlying assets, which extend up to 50 years into the future. This amount has been discounted using a risk-free interest rate of 2.86 percent (December 31, 2021 – 2.30 percent).

(\$ 000s)	September 30, 2021	December 31, 2021
Decommissioning liabilities, January 1	135,815	137,002
Changes in estimate ⁽¹⁾	409	5,980
Liabilities settled during the period	(6,726)	(4,496)
Government grant in-kind (Note 14)	(2,403)	(5,901)
Accretion on decommissioning liabilities	2,597	3,230
Decommissioning liabilities, end of period	129,692	135,815

⁽¹⁾ The change in estimate was primarily due to an increase in estimated costs less an increase in the discount rate.

8. INCOME TAXES

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	63,791
Share issue costs	20	1,903
Canadian oil and gas property expenditures	10	68,152
Canadian development expenditures	30	104,465
Canadian exploration expenditures	100	8,587
		246,898

The Company has \$8,861,000 (December 31, 2021 - \$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, 2021 - \$64,725,000) of capital losses carried forward which can only be claimed against taxable capital gains.

9. 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, 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

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

The weighted average common shares used to calculate basic and diluted net earnings per share for the nine months ended September 30, 2022, are as follows:

	Three Months		Nine Months	
	2022	2021	2022	2021
Basic shares outstanding	36,173,360	33,715,561	35,786,301	33,643,374
Dilutive effect of share options and warrants ⁽¹⁾	1,273,586	1,143,499	1,579,078	913,249
Diluted shares outstanding	37,446,946	34,859,060	37,365,379	34,556,623

⁽¹⁾ The Company did not include 1,167,500 share-options and warrants for the three months ended September 30, 2022 (September 30, 2021 – 262,000) and 1,167,500 share-options and warrants for the nine months ended September 30, 2022 (September 30, 2021 – 315,500) in the dilutive effect of share-options and warrants calculations as these were anti-dilutive.

Warrants

A summary of the status of warrants issued by the Company as of September 30, 2022 and changes during the period are presented below:

	Number of warrants	Weighted exercise price
At December 31, 2021	3,304,000	\$7.75
Warrants exercised	(551,000)	7.75
At September 30, 2022	2,753,000	\$7.75

The Warrants issued entitle the holder to purchase one Common Share of Bonterra for each Warrant at a price of \$7.75, until October 20, 2025.

Options

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 3,623,802 (December 31, 2021 – 3,500,095 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, 2022 and changes during the period are presented below:

	Number of options	Weighted average exercise price
At December 31, 2021	2,261,600	\$2.56
Options granted	1,167,500	9.06
Options exercised ⁽¹⁾	(799,250)	2.49
Options forfeited	(2,500)	3.14
Options expired	(14,000)	17.76
At September 30, 2022	2,613,350	\$5.41

⁽¹⁾ 404,250 options were exercised under the cashless option method, which resulted in 291,077 shares being issued in which the Company received no proceeds. Under the cashless option method, the remaining options between the number of options exercised and shares issued are cancelled.

The following table summarizes information about options outstanding and exercisable as at September 30, 2022:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding	Weighted-average contractual life	Weighted-average exercise price	Number exercisable	Weighted-average exercise price
\$ 1.00 - \$ 5.00	1,400,850	0.6 years	\$ 2.35	1,181,350	\$ 2.18
5.01 - 10.00	1,167,500	4.3 years	8.81	35,000	5.78
10.01 - 15.00	45,000	2.7 years	12.32	-	-
\$ 1.00 - \$ 15.00	2,613,350	2.3 years	\$ 5.41	1,216,350	\$ 2.28

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 2022, the Company granted 1,167,500 options with an estimated fair value of \$4,273,000 or \$3.66 per option using the Black-Scholes option pricing model with the following key assumptions:

	September 30, 2022
Weighted-average risk free interest rate (%) ⁽¹⁾	1.86
Weighted-average expected life (years)	2.0
Weighted-average volatility (%) ⁽²⁾	77.80
Forfeiture rate (%)	7.36
Weighted average dividend yield (%)	1.34

⁽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.

10. OIL AND GAS SALES, NET OF ROYALTIES

(\$ 000s)	Three months		Nine months	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Oil and gas sales				
Crude oil	68,166	50,127	229,342	136,061
Natural gas liquids	7,155	4,172	20,893	10,682
Natural gas	13,506	10,158	46,808	25,671
	88,827	64,457	297,043	172,414
Less royalties:				
Crown	(14,240)	(4,193)	(33,603)	(9,525)
Freehold, gross overriding royalties and other	(3,934)	(2,926)	(13,191)	(7,410)
	(18,174)	(7,119)	(46,794)	(16,935)
Oil and gas sales, net of royalties	70,653	57,338	250,249	155,479

11. SUPPLEMENTAL CASH FLOW INFORMATION

(\$ 000s)	Three months		Nine months	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Change in non-cash working capital:				
Accounts receivable	12,753	(1,473)	(1,429)	(11,528)
Crude oil inventory	(6)	(4)	(109)	(61)
Prepaid expenses	1,028	157	(309)	(1,007)
Abandonment deposit	(102)	-	(2,220)	-
Accounts payable and accrued liabilities	8,172	10,315	13,222	4,744
	21,845	8,995	9,155	(7,852)
Changes related to:				
Operating activities	13,414	(4,338)	6,912	(9,404)
Investing activities	8,431	13,333	2,243	1,552
	21,845	8,995	9,155	(7,852)

Finance expense

(\$ 000s)	Three months		Nine months	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Interest expense:				
Bank and subordinated debt	2,348	4,985	7,362	18,269
Due to related party	-	177	-	518
Subordinated debenture	1,328	-	3,983	-
Subordinated promissory note	-	104	-	310
	3,676	5,266	11,345	19,097
Accretion:				
Decommissioning liabilities	1,179	822	2,597	2,401
Subordinated debentures	603	-	1,730	-
	1,782	822	4,327	2,401
Total finance costs	5,458	6,088	15,672	21,498
Interest expense	3,676	5,266	11,345	19,097
Interest accrued	(1,328)	(866)	(1,322)	(2,420)
Interest paid	2,348	4,400	10,023	16,677

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
- Bank debt
- Subordinated debt
- Subordinated debentures

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 in order to manage the risks relating to commodity prices from its business activities.

Liquidity Risk Management

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company's financial performance and position are largely dependent on the commodity prices received for its oil and natural gas production. Commodity prices have fluctuated widely in recent years due to the COVID-19 pandemic, crude oil inventory levels, domestic infrastructure constraints, global economic and geopolitical factors. 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 shortfall. 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 \$25,644,000 accounts receivable balance at September 30, 2022 (December 31, 2021 - \$24,215,000) over 96 percent (December 31, 2021 – 89 percent) relate to product sales or risk management contracts with national and international banks and oil and gas companies.

On a quarterly basis, Bonterra assesses if there has been any impairment of the financial assets of the Company. During the nine months ended September 30, 2022, there was no material impairment provision required on any of the financial assets of the Company. Bonterra does have 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, 2022, approximately \$220,000 or 0.9 percent of the Company's total accounts receivable are aged over 90 days and considered past due (December 31, 2021 - \$459,000 or 1.9 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, 2022 is \$1,237,000 (December 31, 2021 - \$1,287,000) 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. During the current period, the Company had a net debt to cash flow level of 1.0:1 compared to 2.8:1 as at December 31, 2021. The improvement in Bonterra's net debt to cash flow ratio is primarily due to an increase in cash flow from increasing commodity prices and production. The net debt to cash flow ratio is expected to continue to improve in subsequent quarters due to the Company's focus on debt reduction paired with improved commodity prices, increased production and having approximately 30 percent of Bonterra's forecasted oil and natural gas production hedged over the next 12 months.

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, 2022	December 31, 2021
Bank debt ⁽¹⁾	74,524	162,945
Subordinated debt	47,261	47,268
Subordinated debentures	50,417	47,359
Current liabilities	49,125	40,920
Current assets	(34,199)	(31,313)
Net debt	187,128	267,179
Cash flow from operations (trailing twelve months)	185,927	96,103
Net debt to cash flow ratio	1.0	2.8

⁽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 a risk management program approved by 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, 2022, 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	Oct 1, 2022	to Dec 31, 2022	48.00	to 77.00	USD/BBL
Oil	Physical collar - WTI ⁽¹⁾	500 BBL/day	Jan 1, 2023	to Mar 31, 2023	65.00	to 86.00	USD/BBL
Oil	Physical collar - WTI ⁽¹⁾	500 BBL/day	Jan 1, 2023	to Mar 31, 2023	70.00	to 100.00	USD/BBL
Oil	Physical collar - WTI ⁽¹⁾	500 BBL/day	Apr 1, 2023	to Jun 30, 2023	80.00	to 102.25	USD/BBL
Oil	Fixed price - MSW differential ⁽²⁾⁽³⁾	500 BBL/day	Jan 1, 2023	to Mar 31, 2023		(4.50)	USD/BBL
Gas	Fixed Price - AECO Daily ⁽⁴⁾	2,500 GJ/day	Nov 1, 2021	to Oct 31, 2022		4.10	CAD/GJ
Gas	Fixed Price - AECO Daily ⁽⁴⁾	5,000 GJ/day	Oct 1, 2022	to Dec 31, 2022		3.32	CAD/GJ
Gas	Physical collar - AECO Monthly ⁽⁵⁾	4,000 GJ/day	Oct 1, 2022	to Dec 31, 2022	3.00	to 3.63	CAD/GJ
Gas	Physical collar - AECO Monthly ⁽⁵⁾	2,500 GJ/day	Apr 1, 2022	to Oct 31, 2022	3.50	to 4.15	CAD/GJ
Gas	Physical collar - AECO Monthly ⁽⁵⁾	5,000 GJ/day	Jan 1, 2023	to Mar 31, 2023	4.00	to 4.55	CAD/GJ
Gas	Fixed Price - AECO Daily ⁽⁴⁾	5,000 GJ/day	Apr 1, 2023	to Jun 30, 2023		4.28	CAD/GJ
Gas	Fixed Price - AECO Daily ⁽⁴⁾	4,000 GJ/day	Jul 1, 2023	to Sep 30, 2023		3.85	CAD/GJ

⁽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.

Risk Management Contracts

(\$ 000s)	Three months		Nine months	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Risk management contracts				
Realized loss	(3,103)	(4,856)	(15,633)	(10,732)
Unrealized gain (loss)	11,046	1,762	5,611	(8,158)
	7,943	(3,094)	(10,022)	(18,890)

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, 2022.

Product	Type of contract	Volume	Term	Contract price (\$)
Oil	Financial collar - WTI	1,000 BBL/day	Oct 1, 2022 to Dec 31, 2022	60.00 to 81.25 USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Oct 1, 2022 to Dec 31, 2022	48.00 to 81.25 USD/BBL
Oil	Financial collar - WTI	200 BBL/day	Oct 1, 2022 to Dec 31, 2022	55.00 to 78.45 USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Jan 1, 2023 to Mar 31, 2023	60.00 to 88.00 USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Jan 1, 2023 to Mar 31, 2023	65.00 to 89.45 USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Jan 1, 2023 to Mar 31, 2023	65.00 to 100.00 USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Apr 1, 2023 to Jun 30, 2023	70.00 to 100.00 USD/BBL
Oil	Financial collar - WTI	1,000 BBL/day	Apr 1, 2023 to Jun 30, 2023	75.00 to 101.00 USD/BBL
Oil	Financial collar - WTI	250 BBL/day	Apr 1, 2023 to Jun 30, 2023	75.00 to 103.30 USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Jul 1, 2023 to Sep 30, 2023	70.00 to 95.00 USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Jul 1, 2023 to Sep 30, 2023	70.00 to 98.65 USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Jul 1, 2023 to Sep 30, 2023	50.00 to 95.25 USD/BBL
Oil	Financial collar - WTI	600 BBL/day	Jul 1, 2023 to Sep 30, 2023	50.00 to 98.00 USD/BBL
Oil	Fixed price - MSW differential	1,000 BBL/day	Oct 1, 2022 to Dec 31, 2022	(6.05) CAD/BBL
Oil	Fixed price - MSW differential	500 BBL/day	Jan 1, 2023 to Mar 31, 2023	(4.40) USD/BBL
Oil	Fixed price - MSW differential	500 BBL/day	Jan 1, 2023 to Mar 31, 2023	(4.20) USD/BBL
Oil	Fixed price - MSW differential	500 BBL/day	Oct 1, 2022 to Jun 30, 2023	(4.95) USD/BBL
Gas	Financial collar - AECO Monthly	4,000 GJ/day	Jan 1, 2023 to Mar 31, 2023	4.50 to 5.00 CAD/GJ
Gas	Fixed Price - AECO Monthly	5,000 GJ/day	Apr 1, 2023 to Jun 30, 2023	4.30 CAD/GJ
Gas	Financial collar - AECO Daily	5,000 GJ/day	Jul 1, 2023 to Sep 30, 2023	4.00 to 5.00 CAD/GJ

Subsequent to September 30, 2022, the Company entered into the following risk management contract.

Product	Type of contract	Volume	Term	Contract price (\$)
Oil	Fixed price - MSW differential	500 BBL/day	Apr 1, 2023 to Jun 30, 2023	(3.50) USD/BBL
Oil	Fixed price - MSW differential	500 BBL/day	Jul 1, 2023 to Sep 30, 2023	(3.80) USD/BBL

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.

As of September 30, 2022, the Company's debt facilities consist of a \$110,000,000 syndicated revolving credit facility, and a \$15,000,000 non-syndicated revolving credit facility, \$47,000,000 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 the greater of six percent and increases by one percent in subsequent years or the revolving bank facility rate plus one percent. The subordinated debentures are 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 \$938,000.

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					Total
	Financial Statements	Less than 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 7 years	
Accounts payable and accrued liabilities	Yes - Liability	48,060	-	-	-	48,060
Bank Debt	Yes - Liability	74,524	-	-	-	74,524
Subordinated debt ⁽¹⁾	Yes - Liability	-	47,029	-	-	47,029
Subordinated debentures ⁽¹⁾	Yes - Liability	-	-	59,000	-	59,000
Future interest	No	8,543	14,794	221	-	23,558
Firm service commitments	No	993	1,354	713	9	3,069
Office lease commitments	No	467	1,003	635	-	2,105
Total		132,587	64,180	60,569	9	257,345

⁽¹⁾ Principal amount.

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 4.1 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 \$2,403,000 of asset retirement obligations as an in-kind grant (September 30, 2021 - \$4,892,000). The benefit of the in-kind grant is recognized through other income.