

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following report dated November 8, 2023 is a review of the operations and current financial position for the three and nine months ended September 30, 2023 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, 2022 presented under International Financial Reporting Standards (IFRS), as well as Bonterra 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

As at and for the periods ended (\$ 000s except \$ per share)	2023				2022		
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial							
Revenue - oil and gas sales	84,909	75,606	77,263	87,154	88,827	116,674	91,542
Cash flow from operations	37,715	33,854	24,018	35,494	48,810	58,307	40,942
Per share - basic	1.01	0.91	0.65	0.97	1.35	1.62	1.16
Per share - diluted	1.01	0.91	0.64	0.95	1.30	1.53	1.11
Net earnings	13,486	8,844	7,640	17,264	17,696	33,544	10,519
Per share - basic	0.36	0.24	0.21	0.47	0.49	0.93	0.30
Per share - diluted	0.36	0.24	0.20	0.46	0.47	0.88	0.29
Capital expenditures	36,130	16,116	60,223	12,642	20,452	14,506	32,169
Total assets	955,484	962,021	963,890	919,682	948,259	934,303	965,969
Net debt	167,449	168,344	183,674	149,831	187,128	211,284	260,670
Shareholders' equity	512,479	498,449	488,762	479,839	461,199	442,653	405,148
Operations							
Light oil (barrels per day)	7,177	7,282	7,068	6,764	6,649	7,623	7,356
NGLs (barrels per day)	1,410	1,248	1,155	1,209	1,206	1,151	996
Conventional natural gas (MCF per day)	34,241	32,286	31,448	30,101	31,052	33,323	29,609
Total BOE per day	14,294	13,911	13,464	12,989	13,031	14,328	13,287

As at and for the periods ended (\$ 000s except \$ per share)	2021			
	Q4	Q3	Q2	Q1
Financial				
Revenue - oil and gas sales	79,202	64,457	59,163	48,794
Cash flow from operations	37,868	24,616	18,874	14,745
Per share - basic	1.11	0.73	0.56	0.44
Per share - diluted	1.07	0.71	0.55	0.43
Net earnings (loss) ⁽¹⁾	16,333	7,296	157,354	(1,684)
Per share - basic	0.48	0.22	4.68	(0.05)
Per share - diluted	0.46	0.21	4.55	(0.05)
Capital expenditures	17,636	18,578	7,607	23,461
Total assets	945,721	939,835	948,260	748,543
Net debt	267,179	307,729	319,310	328,506
Shareholders' equity	392,019	361,590	353,431	195,393
Operations				
Light oil (barrels per day)	7,659	6,948	7,370	6,834
NGLs (barrels per day)	1,105	928	996	1,025
Conventional natural gas (MCF per day)	30,276	27,995	26,057	24,301
Total BOE per day	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.

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.

	Q3-2023	Q2-2023	Q1-2023	Q4-2022	Q3-2022	Q2-2022	Q1-2022	Q4-2021
Crude oil								
WTI (U.S.\$/bbl)	82.26	73.78	76.13	82.64	91.56	108.41	94.29	77.19
WTI to MSW Stream Index Differential (U.S.\$/bbl) ⁽¹⁾	(1.83)	(2.96)	(2.86)	(1.61)	(2.05)	(0.50)	(2.96)	(3.10)
Foreign exchange								
U.S.\$ to Cdn\$	1.3410	1.3431	1.3520	1.3578	1.3059	1.2766	1.2662	1.2601
Bonterra average realized oil price (Cdn\$/bbl)	104.32	93.21	95.71	105.59	111.44	126.97	110.41	85.04
Natural gas								
AECO (Cdn\$/mcf)	2.58	2.44	3.20	5.09	4.14	7.20	4.72	4.63
Bonterra average realized gas price (Cdn\$/mcf)	3.06	3.01	3.78	5.36	4.73	6.76	4.80	4.93

⁽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 \$82.26 USD per barrel in Q3 2023, a decrease of 10 percent compared to Q3 2022. The pricing decline for WTI throughout 2023 has been driven by supply and demand volatility due to a variety of macroeconomic and geopolitical factors. These factors include, but are not limited to, crude oil supply growth outside of OPEC+, persistent production from Russia and a slower than expected ramp up in demand from China as their economy slowly rebounds from COVID-19 related restrictions.

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 (\$1.83) USD per barrel in Q3 2023, an improvement of \$0.22 from Q3 2022. Diminished inventories at the Cushing storage hub in Oklahoma have been the largest contributing factor in keeping the differential tight relative to historical levels. Seasonally lower refining demand for sweet crude oil combined with pipeline apportionment may weigh on the movement and pricing of MSW crude oil in the near term. Longer term however, 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 all Canadian barrels.

AECO daily spot prices averaged \$2.58 per mcf in Q3 2023, a decrease of 38 percent over Q3 2022. The decrease is mainly due to looser supply and demand balances and elevated storage levels that began as a result of unexpected demand losses, and an unseasonably mild winter across much of North America. This negative pricing pressure has persisted as a result of continued strong supply.

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 before tax cash flow, as estimated for 2023⁽¹⁾

Impact on cash flow	Change (\$)	\$000s	\$ per share ⁽²⁾
Realized crude oil price (\$/bbl)	1.00	2,208	0.06
Realized natural gas price (\$/mcf)	0.10	1,134	0.03
U.S.\$ to Canadian \$ exchange rate	0.01	1,700	0.05

⁽¹⁾ This analysis uses current royalty rates, annualized estimated average production of 13,600 BOE per day and no changes in working capital.

⁽²⁾ Based on annualized basic weighted average shares outstanding of 37,244,467.

Business Overview, Strategy and Key Performance Drivers

Bonterra believes it has established a strong position to continue pursuing profitable development of its high-quality, light oil weighted asset base and remains focused on enhancing the Company's financial position, reducing net debt and progressing towards implementing a shareholder returns-based business model that is focused on continued debt repayment, sustainable dividends and modest production growth. Bonterra is also committed to employing local services in Drayton Valley and to being a key economic contributor to rural and surrounding communities located within central Alberta.

Production averaged 13,893 BOE per day in the first nine months of 2023, an increase of 345 BOE per day, or three percent, compared to the same period in 2022 and 1,263 BOE per day, or 10 percent comparing Q3 2023 to Q3 2022. The increase in production was due to the Company's successful capital program, which was partially offset by 333 BOE per day of shut-in production in Q2 2023 due to wildfires in central Alberta. The Company anticipates its annual average production will reach or exceed the upper limit of its 2023 guidance range of 13,500 to 13,700 BOE per day.

The Company remains focused on strengthening its debt profile while modestly growing production, with quarter end net debt decreasing by \$16.3 million compared to Q1 2023. The Company plans on further reducing net debt by leveraging increased cash flow due to production growth combined with reduced capital expenditures compared to the first quarter of 2023.

Bonterra invested capital expenditures of \$112.5 million in the first nine months of 2023. Of the total capital invested, \$86.9 million was directed to the drilling of 38 gross (36.4 net) operated wells and completing, equipping, tying-in and placing on production 35 gross (33.6 net) operated wells. Two of the remaining three gross (2.8 net) operated wells were placed on production early in the fourth quarter of 2023. The remaining operated well is expected to be placed on production early in the first quarter of 2024. In addition to the drilling program, the Company expended \$3.7 million of the capital program to the expansion of a wholly owned gas plant to alleviate processing capacity limitations, and an additional \$21.9 million was directed to related infrastructure, recompletions, non-operated capital and the drilling of the Company's first exploratory Montney well. The Montney well was completed in the fourth quarter of 2023 and is currently in the early stages of flow back with an extended flow test planned in 2024.

The Company has continued to focus on responsible environmental initiatives, including a targeted abandonment and reclamation program with support from the Alberta Site Rehabilitation Program ("SRP"). During the first nine months of 2023, Bonterra successfully abandoned 62.1 net wells and 123 pipelines for a total length of 108.8 kms of pipe and plans to abandon an additional 54 pipelines in the last quarter of 2023. By the end of 2023, Bonterra expects to have abandoned approximately 75 percent of all wells identified as having no further economic potential.

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 Q2 2024 on approximately 30 percent of its expected crude oil and natural gas production. For the next nine months, Bonterra has secured a WTI price between \$50.00 USD to \$93.75 USD per bbl on 2,368 bbls per day. In addition, the Company has secured natural gas prices between \$2.15 to \$3.75 per GJ on 11,172 GJ per day to the end of Q2 2024.

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, 2023		June 30, 2023		September 30, 2022		September 30, 2023		September 30, 2022	
	Gross ⁽¹⁾	Net ⁽²⁾								
Crude oil horizontal-operated	12	11.8	4	4.0	8	8.0	38	36.4	23	22.7
Crude oil horizontal-non-operated	-	-	-	-	3	0.4	6	1.1	9	1.1
Total	12	11.8	4	4.0	11	8.4	44	37.5	32	23.8
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 2023, the Company drilled 38 gross (36.4 net) operated wells and completed, tied in, and placed on production 35 gross (33.6 net) operated wells. Two of the remaining three gross (2.8 net) operated wells were placed on production early in the fourth quarter of 2023 and the remaining well will be placed on production early in the first quarter of 2024. In addition to the 38 gross operated development wells, Bonterra drilled an exploratory Montney well which the Company completed subsequent to the quarter and plans to flow test in 2024.

Production

	Three months ended			Nine months ended	
	September 30, 2023	June 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Crude oil (barrels per day)	7,177	7,282	6,649	7,176	7,207
NGLs (barrels per day)	1,410	1,248	1,206	1,272	1,119
Natural gas (MCF per day)	34,241	32,286	31,052	32,669	31,333
Average BOE per day	14,294	13,911	13,031	13,893	13,548

The Company averaged 13,893 BOE per day of production in the first nine months of 2023, which was higher than the comparable period in 2022. The increase was due to Bonterra's successful capital program, which was partially offset by 333 BOE per day of shut-in volumes in Q2 2023 as a result of the wildfires that occurred in central Alberta during the period. With the shut-in volumes resolved in Q3 2023, the Company achieved a 1,263 BOE per day, or 10 percent increase in production when comparing Q3 2023 to Q3 2022.

Cash Netback

\$ per BOE	Three months ended			Nine months ended	
	September 30, 2023	June 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Production volumes (BOE)	1,315,079	1,265,887	1,198,835	3,792,701	3,698,530
Gross production revenue	64.57	59.73	74.09	62.69	80.31
Realized gain (loss) on risk management contracts	0.52	0.95	(2.59)	0.47	(4.23)
Royalties	(8.10)	(7.02)	(15.16)	(8.74)	(12.65)
Production costs	(16.61)	(16.88)	(20.33)	(17.00)	(17.88)
Field netback	40.38	36.78	36.01	37.42	45.55
General and administrative	(2.30)	(2.73)	(2.47)	(2.45)	(2.64)
Interest and other	(3.64)	(3.83)	(2.87)	(3.85)	(2.91)
Current income tax ⁽¹⁾	(1.96)	(2.73)	(1.10)	(2.94)	(0.95)
Cash netback	32.48	27.49	29.57	28.18	39.05

\$000s

Investment tax credits used ("ITC") ⁽¹⁾	-	459	-	4,260	-
ITCs used \$ per BOE	-	0.36	-	1.12	-
Adjusted cash netback	32.48	27.85	29.57	29.30	39.05

⁽¹⁾ Current income tax excludes the use of investment tax credit receivable ("ITC") used to settle Federal income tax owing. The usage of ITCs to settle cash taxes owing would increase cash netback to the adjusted cash net back amounts.

Cash netbacks decreased in the first nine months of 2023 on a BOE basis compared to the same period in 2022 primarily due to lower per BOE realized commodity prices, and current income tax costs. This was partially offset by a decrease in the loss on realized risk management contracts and lower royalty costs.

Oil and Gas Sales

Revenue - oil and gas sales (\$ 000s)	Three months ended			Nine months ended	
	September 30, 2023	June 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Light oil	68,883	61,770	68,166	191,536	229,342
NGL	6,383	4,993	7,155	17,044	20,893
Conventional natural gas	9,643	8,843	13,506	29,198	46,808
	84,909	75,606	88,827	237,778	297,043
Average realized prices:					
Light oil (\$ per barrel)	104.32	93.21	111.44	97.77	116.57
NGL (\$ per barrel)	49.19	43.97	64.45	49.08	68.41
Conventional natural gas (\$ per MCF)	3.06	3.01	4.73	3.27	5.47
Average (\$ per BOE)	64.57	59.73	74.09	62.69	80.31
Average BOE per day	14,294	13,911	13,031	13,893	13,548

Revenue from oil and gas sales in the first nine months of 2023 decreased by \$59.3 million, or 20 percent, compared to the same period in 2022. This decrease was primarily driven by a 22 percent reduction in Bonterra's realized commodity prices over the same period. Quarter-over-quarter, revenue from oil and gas sales increased due to higher realized crude oil prices and an increase in production.

Bonterra's product split on a revenue basis was weighted approximately 88 percent to crude oil and NGLs during 2023.

Royalties

(\$ 000s)	Three months ended			Nine months ended	
	September 30, 2023	June 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Crown royalties	7,382	6,157	14,240	23,505	33,603
Freehold, gross overriding and other royalties	3,267	2,735	3,934	9,639	13,191
Total royalties	10,649	8,892	18,174	33,144	46,794
Crown royalties - percentage of revenue	8.7	8.1	16.0	9.9	11.3
Freehold, gross overriding and other royalties - percentage of revenue	3.8	3.6	4.4	4.1	4.4
Royalties - percentage of revenue	12.5	11.7	20.4	14.0	15.7
Royalties \$ per BOE	8.10	7.02	15.16	8.74	12.65

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 first nine months of 2023 decreased by \$3.91 per BOE compared to the same period in 2022 primarily due to a decrease in commodity prices. Quarter-over-quarter, royalties increased due to higher commodity prices.

Production Costs

(\$ 000s except \$ per BOE)	Three months ended			Nine months ended	
	September 30, 2023	June 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Production costs	21,844	21,367	24,366	64,461	66,134
\$ per BOE	16.61	16.88	20.33	17.00	17.88

Production costs for the first nine months of 2023 decreased compared to the same period in 2022, primarily due to less well and facility maintenance as the Company replaced old infrastructure with newer upgrades that require less maintenance. The Company also incurred less service rig costs due to fewer wells being worked over in the current period. This was partially offset by general cost increases due to inflation and an increase in government levies.

Quarter-over-quarter, production costs slightly decreased on a BOE basis due to less chemical usage from field optimization programs and reduced trucking costs from less new well production in areas with lower water disposal capacity. In addition, the Company experienced reduced power rates in Q3 2023 compared to the prior quarter. This was partially offset by increased well, road and lease maintenance costs that typically occur in the third quarter after spring break-up.

Other Income

(\$ 000s)	Three months ended			Nine months ended	
	September 30, 2023	June 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Investment income	104	117	50	320	106
Administrative income	74	55	174	201	499
Gain on sale of property	17	-	-	17	-
Government grant in-kind	-	-	791	782	2,403
Deferred consideration	232	253	261	735	865
Realized gain (loss) on risk management contracts	680	1,204	(3,103)	1,773	(15,633)
Unrealized gain (loss) on risk management contracts	(3,266)	(1,298)	11,046	(3,058)	5,611
	(2,159)	331	9,219	770	(6,149)

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, 2023 totaled \$1,793,000 (September 30, 2022 - \$2,025,000). There were no dispositions during the period ended September 30, 2023 or September 30, 2022. Dispositions that result in a gain or loss on sale are recorded as an equity transfer between accumulated other comprehensive income and retained earnings.

The Company receives administrative income for various oil and gas administrative services provided and production equipment rentals to other companies.

The Government of Alberta's SRP provides grant funding through service providers to abandon or remediate oil and gas sites, which concluded in Q2 2023. The Company derecognized approximately \$0.8 million of asset retirement obligations as an in-kind grant in 2023 (September 30, 2022 - \$2.4 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 primarily for the period from October 1, 2023 to June 30, 2024 and are for a total of 584,600 barrels of light crude oil (approximately 2,133 barrels of oil per day for the next nine months) at fixed WTI prices ranging from \$50.00 USD to \$93.75 USD per barrel. In addition, the Company has entered into financial derivatives on natural gas prices between \$2.25 and \$3.56 on 5,000 GJ per day for the period from October 1, 2023 to June 30, 2024. 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, 2023	June 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Employee compensation	1,829	1,563	1,997	5,275	6,302
Office and administrative	1,201	1,887	960	4,011	3,476
Total G&A	3,030	3,450	2,957	9,286	9,778
\$ per BOE	2.30	2.73	2.47	2.45	2.64

Employee compensation expense decreased by \$1.0 million for the first nine months of 2023 compared to 2022. The decrease is primarily due to a lower bonus accrual due to lower net earnings before taxes.

Office and administrative expense increased in the first nine months of 2023 compared to the same period in 2022 primarily due to an increase in the provision for the allowance for doubtful accounts.

Finance Costs

(\$ 000s except \$ per BOE)	Three months ended			Nine months ended	
	September 30, 2023	June 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Interest on bank debt and subordinated debt	867	879	2,348	2,718	7,362
Subordinated debentures	1,328	1,327	1,328	3,983	3,983
Subordinated term debt	2,748	2,804	-	8,450	-
Interest expense	4,943	5,010	3,676	15,151	11,345
\$ per BOE	3.76	3.96	3.07	3.99	3.07
Accretion of decommissioning liabilities	956	947	1,179	2,827	2,597
Accretion on subordinated debentures	706	709	603	2,026	1,730
Accretion on subordinated term debt	522	561	-	1,640	-
Total finance costs	7,127	7,227	5,458	21,644	15,672

Interest on bank debt was lower in the first nine months of 2023 compared to 2022 due to a decrease of approximately 81 percent in average bank debt outstanding.

Subordinated debt interest relates to the Business Development Bank of Canada (“BDC”) \$47 million second lien non-revolving four-year term loan (the “BDC Loan”). Interest on the BDC Loan was \$nil (September 30, 2022 - \$2.1 million). The BDC Loan was fully repaid on November 25, 2022.

Subordinated unsecured term debt on September 30, 2023 was \$80.8 million (December 31, 2022 - \$95 million) (the “Subordinated Term Debt”). The Subordinated Term Debt has a fixed interest rate of 11.70 percent on 25 percent of the principal balance and a floating interest rate of Canadian Prime plus 6.25 percent on the remaining amount. Based on the calculated fair value of the Subordinated Term Debt as at September 30, 2023, the effective interest rate was determined to be 16.4 percent using the effective interest rate method. The value of the debt will accrete up to the principal balance at maturity. For more information on Subordinated Term Debt, refer to Note 6 of the September 30, 2023, condensed financial statements.

Subordinated Debentures are unsecured and were determined to be a compound instrument with a debt and equity component. The fair value of the \$59 million debt component was reduced by the residual value of the issuance 3,304,000 warrants and issue costs. The debentures have a fixed interest rate of nine percent, payable semi-annually. Based on the calculated fair value of the subordinated debentures as at September 30, 2023, the effective interest rate was determined to be 15.6 percent using the effective interest rate method. The value of the subordinated debentures will accrete up to the principal balance at maturity. For more information on subordinated debentures, refer to Note 5 of the September 30, 2023, 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 \$671,000.

For more information on bank debt and Subordinated Term Debt, see the Liquidity and Capital Resources section herein.

Share-Option Compensation

(\$ 000s)	September 30, 2023	Three months ended		Nine months ended	
		June 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Share-option compensation	471	702	525	2,282	1,278

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, 2023, the Company has an unamortized expense of \$2,668,000, of which \$634,000 will be recognized for the remainder of 2023; \$1,521,000 in 2024 and \$513,000 thereafter. For more information about options issued and outstanding, refer to Note 8 of the September 30, 2023, condensed financial statements.

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

(\$ 000s)	September 30, 2023	Three months ended		Nine months ended	
		June 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Depletion and depreciation	21,984	22,607	23,697	66,408	69,022

The provision for depletion and depreciation (“D&D”) decreased in the first nine months of 2023 compared to 2022 primarily due to an increase in proved plus probable developed reserves.

Taxes

The Company recorded a total income tax expense of \$11.4 million in the first nine months of 2023 (2022 – \$20.5 million). The income tax expense decrease compared to the prior period is due to reduced earnings before income taxes. The current income tax portion of the provision of \$11.4 million, is comprised of \$3.3 million payable to the province of Alberta and the remainder to the Federal government. The Company used \$4.3 million of investment tax credits to offset the cash owing for Federal income tax.

For additional information regarding income taxes, see Note 7 of the September 30, 2023 condensed financial statements.

Net Earnings

(\$ 000s except \$ per share)	September 30, 2023	Three months ended		Nine months ended	
		June 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Net earnings	13,486	8,844	17,696	29,970	61,759
\$ net earnings per share - basic	0.36	0.24	0.49	0.81	1.73
\$ net earnings per share - diluted	0.36	0.24	0.47	0.80	1.65

Net earnings for the first nine months 2023 decreased by \$31.8 million compared to 2022. The decrease in net earnings was primarily attributed to lower commodity prices realized during the period. This was partially offset by a gain on risk management contracts in the current year compared to a loss on risk management contracts in the prior year and a decrease in the tax provision. The quarter-over-quarter increase in net earnings is primarily due to higher crude oil prices and production in the third quarter.

Other Comprehensive Income

Other comprehensive income for 2023 consists of an unrealized loss before tax on investments (including investment in a related party) of \$235,000 relating to a decrease in the investments' fair value (September 30, 2022 – \$1,133,000 gain). 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)	September 30, 2023	Three months ended		Nine months ended	
		June 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Cash flow from operations	37,715	33,854	48,810	95,587	148,059
\$ per share - basic	1.01	0.91	1.35	2.57	4.14
\$ per share - diluted	1.01	0.91	1.30	2.56	3.96

In the first nine months of 2023, cash flow from operations decreased by \$52.5 million compared to 2022. This was primarily due to a decrease in realized commodity prices.

Quarter-over-quarter, cash flow from operations increased primarily due to higher oil and NGL prices and increased production.

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 twelve month trailing cash flow ratio as of September 30, 2023 was 1.3 to 1 times (versus 0.8 to 1 times at December 31, 2022). The increase in Bonterra's net debt to cash flow ratio is primarily due to an increase in net debt due to the Company's front-loaded capital program in the first nine months of 2023 and a decrease in cash flow from lower commodity prices. 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 increased production, reduced capital spending in the last quarter of the year and future cash flow protection from having approximately 30 percent of Bonterra's forecasted oil and natural gas production hedged over the next nine months.

Working Capital Deficiency and Net Debt

(\$ 000s)	September 30, 2023	June 30, 2023	December 31, 2022	September 30, 2022
Working capital deficiency	30,440	20,248	12,578	14,926
Bank debt	26,613	35,506	17,601	74,524
Subordinated debt	-	-	-	47,261
Subordinated debentures	53,124	51,090	49,770	50,417
Subordinated term debt (long-term portion)	57,272	61,500	69,882	-
Net debt	167,449	168,344	149,831	187,128

Net debt is a combination of bank debt, subordinated debentures, subordinated term debt and working capital. The Company's Bank Facility has a maturity date of April 30, 2025 and is recorded as a long-term liability at September 30, 2023 and December 31, 2022. Included in working capital deficiency is \$19.0 million of principal payments due in the next twelve months on the Subordinated Term Debt loan. 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 to meet its future liabilities.

Net debt at September 30, 2023 decreased by \$19.7 million compared to September 30, 2022, primarily due to the Company's continued focus on net debt reduction, which was partially offset by the Company's front loaded 2023 capital program.

Working capital is calculated as current assets less current liabilities.

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. 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 to the end of Q2 2024. 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 the Company's capital development program. For more information on physical delivery and risk management contracts in place, see Note 11 of the September 30, 2023 condensed financial statements.

Capital Expenditures

During the nine months ended September 30, 2023, the Company incurred capital expenditures of \$112.5 million (September 30, 2022 - \$67.1 million). Of the total capital invested, \$86.9 million was directed to the drilling of 38 gross (36.4 net) operated wells and the completion, equip and tie-in of gross 35 (33.6 net) operated wells. Two of the remaining three gross (2.8 net) operated wells were placed on production early in the fourth quarter of 2023. The remaining operated well, along with three more operated wells to be drilled in Q4 2023, are expected to be placed on production early in the first quarter of 2024. In addition to the development drilling program, Bonterra also expended \$3.7 million on expanding a wholly owned gas plant and an additional \$21.9 million was spent primarily on related infrastructure, recompletions, non-operated capital programs and the drilling of the Company's first exploratory Montney well. The Montney well was completed in the fourth quarter and is currently in the early stages of flow back with an extended flow test planned in 2024.

Decommissioning Liabilities

Including the Alberta SRP funding that was received in the first quarter, the Company spent \$6.5 million on decommissioning activities during the nine months ended September 30, 2023. Since the beginning of 2020, Bonterra successfully abandoned 547.7 net wells, 410 pipelines and six facilities.

Bank Debt and Subordinated Term Debt

Bank debt represents the outstanding amounts drawn on the Company's Bank Facility. As at September 30, 2023, the Company has a total Bank Facility of \$110.0 million, comprised of a \$85.0 million syndicated revolving credit facility and a \$25.0 million non-syndicated revolving facility. The amount drawn under the total Bank Facility at September 30, 2023 was \$26.6 million (December 31, 2022 - \$17.6 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. As at September 30, 2023, the terms of the total revolving Bank Facility provided that the loan facility was revolving to April 30, 2024, with a maturity date of April 30, 2025, with no set terms of repayment on the credit facility. The terms of the revolving Bank Facility were confirmed on October 25, 2023. The Company is subject to the next semi-annual determination by April 30, 2024.

As at September 30, 2023, Bonterra classified its bank debt as a long-term liability and was in compliance with all financial covenants on its total Bank Facility.

The amount available for borrowing under the Bank Facility is reduced by outstanding letters of credit. Letters of credit totaling \$2.1 million were issued as at September 30, 2023 (December 31, 2022 - \$2.1 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.

Subordinated Term Debt represents a four-year second lien, non-revolving subordinated term debt facility. The amounts borrowed under the Subordinated Term Debt bear interest at a fixed rate of 11.70 percent to be applied to 25 percent of the term facility principle and a floating interest rate of Canadian Prime Rate plus 6.25 percent on the remaining 75 percent of the principal amount. The Company is required to make mandatory principal repayments equal to \$4.75 million, payable on the last banking day of February, May, August and November of each calendar year, commencing on February 28, 2023. The term debt has a maturity date of November 30, 2026 on which the remaining outstanding principle balance is to be paid.

The amount drawn under the Subordinated Term Debt at September 30, 2023 was \$80.8 million (December 31, 2022 - \$95.0 million). Based on the calculated fair value of the debt as at September 30, 2023, the effective interest rate was determined to be 16.4 percent, by discounting future payments of interest and principal with the residual value allocated to issue costs. The value of the debt will accrete up to the principal balance at maturity.

Security for the Subordinated Term Debt consists of various floating demand debentures totaling \$150 million (December 31, 2022 - \$150 million) over all of the Company's assets and a general security agreement with second ranking over all personal and real property.

Financial Covenants

The Company is subject to certain financial covenants under its Bank Facility and Subordinated Term Debt facility as follows:

- Consolidated debt to trailing twelve months EBITDA Ratio shall not exceed 2.50:1.00; and
- Asset Coverage Ratio of not less than 1.50:1.

Asset Coverage ratio is defined as the proved developed producing reserves of the Company (before income tax; discounted at 10 percent), as evaluated by an independent third-party engineering report as at December 31 and evaluated on strip commodity pricing, divided by the consolidated debt of the Company. The ratio is calculated and revaluated for strip pricing on June 30 and December 31 period ends.

As at September 30, 2023, Bonterra was in compliance with all financial covenants on its first and second lien facilities.

For more information about bank debt and Subordinated Term Debt, please see Note 4 and 6, respectively, of the September 30, 2023 condensed financial statements.

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, 2022	36,912,892	781,679
Issued pursuant to the Company's share option plan	331,575	595
Transfer from contributed surplus to share capital		902
Balance, September 30, 2023	37,244,467	783,176

A total of 2,753,000 Warrants are outstanding as at September 30, 2023, 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 3,724,447 (December 31, 2022 – 3,691,289) 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 8 of the September 30, 2023, condensed financial statements.

Quarterly Financial Information

	2023				2022		
For the periods ended (\$ 000s except \$ per share)	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue - oil and gas sales	84,909	75,606	77,263	87,154	88,827	116,674	91,542
Cash flow from operations	37,715	33,854	24,018	35,494	48,810	58,307	40,942
Net earnings	13,486	8,844	7,640	17,264	17,696	33,544	10,519
Per share - basic	0.36	0.24	0.21	0.47	0.49	0.93	0.30
Per share - diluted	0.36	0.24	0.20	0.46	0.47	0.88	0.29

	2021			
For the periods ended (\$ 000s except \$ per share)	Q4	Q3	Q2	Q1
Revenue - oil and gas sales	79,202	64,457	59,163	48,794
Cash flow from operations	37,868	24,616	18,874	14,745
Net earnings (loss)	16,333	7,296	157,354	(1,684)
Per share - basic	0.48	0.22	4.68	(0.05)
Per share - diluted	0.46	0.21	4.55	(0.05)

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. Net earnings in Q2 2021 were significantly higher than other quarters due to an impairment reversal on the Company's Alberta CGU from a previous impairment provision taken during the COVID-19 pandemic. More recent quarters' results have also been positively affected by the rise in oil and natural gas prices.

Contractual Obligations and Commitments

At September 30, 2023, Bonterra's total contractual obligations and commitments were \$254,345,000. These include obligations and commitments in place as of December 31, 2022, changes in accrued interest in the period, as well as additional firm service commitments entered into during the nine months ended September 30, 2023. For more information, refer to Note 12 "Commitments and Financial Liabilities" of the September 30, 2023 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 12 of the September 30, 2023 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 hedging a portion of product sales, current technology and information systems. In addition, Bonterra strives to operate the majority of its properties, thereby maintaining operational control where possible.

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, 2022, 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 or damage to production facilities and equipment. 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, 2022, 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: estimated production; cash flow sensitivity to commodity price variables; abandonment and reclamation activities and targets; 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; maintenance of existing customer, supplier and partner relationships; supply channels; accounting policies; 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 may limit growth or operations within the oil and gas industry; the impact of climate-related financial disclosures on financial results; the ability of the Company to raise capital, maintain its syndicated bank facility and refinance indebtedness upon maturity; 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; credit risks; climate change risks; cyber security; 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, 2023 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, 2023.

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