

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, 2023	December 31, 2022
Assets			
Current			
Accounts receivable		31,944	27,326
Crude oil inventory		924	1,106
Prepaid expenses		7,021	7,208
Investment tax credit receivable		-	5,761
Risk management contract	11	-	798
Investments		1,793	2,028
		41,682	44,227
Exploration and evaluation assets		5,785	4,563
Property, plant and equipment	3	908,017	870,892
		955,484	919,682
Liabilities			
Current			
Accounts payable and accrued liabilities		49,953	35,573
Risk management contract	11	2,260	-
Subordinated term debt	6	19,000	20,193
Deferred consideration		909	1,039
		72,122	56,805
Bank debt	4	26,613	17,601
Subordinated debentures	5	53,124	49,770
Subordinated term debt	6	57,272	69,882
Deferred consideration		8,446	9,051
Decommissioning liabilities		97,750	109,215
Deferred tax liability	7	127,678	127,519
		443,005	439,843
Shareholders' equity			
Share capital	8	783,176	781,679
Contributed surplus		33,085	31,705
Warrants	8	6,053	6,053
Accumulated other comprehensive income		577	784
Deficit		(310,412)	(340,382)
		512,479	479,839
		955,484	919,682
Commitments and contingencies	12		
Subsequent events	11		

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the periods ended September 30 (unaudited)		Three months		Nine months		
(\$ 000s, except \$ per share)		Note	2023	2022	2023	2022
Revenue						
Oil and gas sales, net of royalties	9	74,260	70,653	204,634	250,249	
Other income		195	1,015	1,320	3,008	
Deferred consideration		232	261	735	865	
Gain (loss) on risk management contracts	11	(2,586)	7,943	(1,285)	(10,022)	
		72,101	79,872	205,404	244,100	
Expenses						
Production		21,844	24,366	64,461	66,134	
Office and administration		1,201	960	4,011	3,476	
Employee compensation		1,829	1,997	5,275	6,302	
Finance costs	10	7,127	5,458	21,644	15,672	
Share-option compensation		471	525	2,282	1,278	
Depletion and depreciation	3	21,984	23,697	66,408	69,022	
		54,456	57,003	164,081	161,884	
Earnings before income taxes		17,645	22,869	41,323	82,216	
Taxes						
Current income tax expense	7	2,579	1,322	11,167	3,527	
Deferred income tax expense	7	1,580	3,851	186	16,930	
		4,159	5,173	11,353	20,457	
Net earnings for the period		13,486	17,696	29,970	61,759	
Other comprehensive income (loss)						
Unrealized gain (loss) on investments		82	239	(235)	1,133	
Deferred taxes on unrealized (gain) loss on investments		(9)	(27)	28	(130)	
Other comprehensive income (loss) for the period		73	212	(207)	1,003	
Total comprehensive income for the period		13,559	17,908	29,763	62,762	
Net earnings per share - basic	8	0.36	0.49	0.81	1.73	
Net earnings per share - diluted	8	0.36	0.47	0.80	1.65	
Comprehensive income per share - basic	8	0.36	0.50	0.80	1.75	
Comprehensive income per share - diluted	8	0.36	0.48	0.80	1.68	

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	
		2023	2022	2023	2022
Operating activities					
Net earnings		13,486	17,696	29,970	61,759
Items not affecting cash					
Deferred income tax expense		1,580	3,851	186	16,930
Share-option compensation		471	525	2,282	1,278
Investment income		(104)	(50)	(320)	(106)
Finance costs	10	7,127	5,458	21,644	15,672
Unrealized (gain) loss on risk management contracts	11	3,266	(11,046)	3,058	(5,611)
Deferred consideration		(232)	(261)	(735)	(865)
Depletion and depreciation	3	21,984	23,697	66,408	69,022
Gain on sale of property		(17)	-	(17)	-
Government grant in-kind	13	-	(791)	(782)	(2,403)
Decommissioning expenditures		(1,351)	(1,334)	(5,749)	(4,505)
Interest paid	10	(3,616)	(2,349)	(13,824)	(10,024)
Changes in non-cash working capital accounts	10	(4,879)	13,414	(6,534)	6,912
Cash provided by operating activities		37,715	48,810	95,587	148,059
Financing activities					
Increase (decrease) of bank debt		(8,893)	(36,952)	9,012	(88,421)
Decrease of subordinated term debt	6	(4,750)	-	(15,443)	-
Proceeds from warrants exercised	5	-	-	-	4,270
Stock option proceeds		-	113	595	870
Cash used in financing activities		(13,643)	(36,839)	(5,836)	(83,281)
Investing activities					
Investment income received		104	50	320	106
Exploration and evaluation expenditures		(737)	(2,124)	(1,221)	(2,569)
Property, plant and equipment expenditures	3	(35,393)	(18,328)	(111,248)	(64,558)
Proceeds on sale of property		28	-	28	-
Changes in non-cash working capital accounts	10	11,926	8,431	22,370	2,243
Cash used in investing activities		(24,072)	(11,971)	(89,751)	(64,778)
Net change in cash in the period		-	-	-	-
Cash, beginning of period		-	-	-	-
Cash, end of period		-	-	-	-
The following are included in cash flow from operating activities:					
Income taxes paid		1,371	-	8,436	-

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 8)	Share capital (Note 8)	Contributed surplus ⁽¹⁾	Warrants	Accumulated other comprehensive income (loss) ⁽²⁾		Total shareholders' equity
					income (loss) ⁽²⁾	Deficit	
January 1, 2022	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
Share-option compensation			632				632
Exercise of options	674,863	742					742
Transfer to share capital on exercise of options		1,239	(1,239)				-
Comprehensive income					2	17,264	17,266
December 31, 2022	36,912,892	781,679	31,705	6,053	784	(340,382)	479,839
Share-option compensation			2,282				2,282
Exercise of options	331,575	595					595
Transfer to share capital on exercise of options		902	(902)				-
Comprehensive income (loss)					(207)	29,970	29,763
September 30, 2023	37,244,467	783,176	33,085	6,053	577	(310,412)	512,479

⁽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 FINANCIAL STATEMENTS

As at September 30, 2023 and December 31, 2022 and for the three and nine months ended September 30, 2023 and September 30, 2022 (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. Common shares of the Company (“Common Shares”) are listed for trading on the Toronto Stock Exchange (“TSX”) under the symbol “BNE”.

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, 2023.

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 2022 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 2022 audited annual financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

b) Adopted Accounting Pronouncements

Amendments to IAS 1 and IAS 8 - Accounting Policies and Accounting Estimates

On January 1, 2023, the Company adopted the narrow scope amendments introduced to IAS 1 – “Presentation of Financial Statements” and IAS 8 – “Accounting Policies, Changes in Accounting Estimates and Errors” to improve accounting policy disclosures and to distinguish changes in accounting estimates from changes in accounting policies. There was no material impact to Bonterra’s financial statements.

Amendments to IAS 12 – Deferred taxes related to assets and liabilities arising from a single transaction

On January 1, 2023, the Company adopted amendments to IAS 12 – “Income Taxes,” which requires companies to recognize deferred tax on particular transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. There was no material impact to Bonterra’s financial statements.

c) Future Accounting Pronouncements

Amendments to IAS 1 - Classification of liabilities as current or non-current

In January 2020, the IASB issued amendments to IAS 1 – “Presentation of Financial Statements” to clarify that liabilities are classified as either current or non-current, depending on the existence of the substantive right at the end of the reporting period for an entity to defer settlement of the liability for at least twelve months after the reporting period. The amendments are effective January 1, 2024, with early adoption permitted. The amendments are required to be adopted retrospectively. Bonterra does not expect a material impact from these amendments on its financial statements as a result of the initial application.

Amendments to IFRS 16 – Leases – Lease Liability in a Sale and Leaseback

In September 2022, IASB issued amendments to IFRS 16 – Leases “Lease Liability in a Sale and Leaseback” transactions, that specify the requirement that a seller-lessee uses in its subsequent measurement of the lease liability in a sale and leaseback transaction to ensure the seller-lessee does not recognize any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual reporting periods beginning on or after January 1, 2024 with early adoption permitted. The amendments are to be applied retrospectively. Bonterra does not anticipate a material impact from these amendments in its financial statements as a result of the initial application.

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, 2022	1,542,394	415,183	2,461	1,960,038
Additions	82,729	28,132	387	111,248
Disposal	-	-	(51)	(51)
Adjustment to decommissioning liabilities	(7,755)	-	-	(7,755)
Balance at September 30, 2023	1,617,368	443,315	2,797	2,063,480
Accumulated depletion and depreciation (\$ 000s)	Oil and gas properties	Production facilities	Furniture fixtures & other equipment	Total property plant & equipment
Balance at December 31, 2022	(889,826)	(197,318)	(2,002)	(1,089,146)
Depletion and depreciation	(53,188)	(13,119)	(101)	(66,408)
Disposal and other	50	-	41	91
Balance at September 30, 2023	(942,964)	(210,437)	(2,062)	(1,155,463)
Carrying amounts as at: (\$ 000s)				
December 31, 2022	652,568	217,865	459	870,892
September 30, 2023	674,404	232,878	735	908,017

Impairment

There were no indicators of impairment losses or reversals identified for each of the three and nine months ended September 30, 2023 and 2022.

4. BANK DEBT

As at September 30, 2023, the Company had a total Bank Facility of \$110,000,000 (December 31, 2022 - \$110,000,000), comprised of a \$85,000,000 syndicated revolving credit facility, and a \$25,000,000 non-syndicated revolving credit facility. The amount drawn under the total Bank Facility at September 30, 2023 was \$26,613,000 (December 31, 2022 - \$17,601,000). 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 twelve month trailing 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.

The amount available for borrowing under the Bank Facility is reduced by outstanding letters of credit. Letters of credit totaling \$2,130,000 were issued as at September 30, 2023 (December 31, 2022 - \$2,095,000). Security for the Bank Facility consists of various floating demand debentures totaling \$750,000,000 (December 31, 2022 - \$750,000,000) over all of the Company's assets and a general security agreement with first 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 Bank Facility.

5. SUBORDINATED DEBENTURES

As at September 30, 2023 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 due 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 2023 was \$2,655,000 (September 30, 2022 - \$2,655,000) Interest accrued in the first nine months of 2023 was \$1,328,000 (September 30, 2022 - \$1,328,000)

The unsecured subordinated debentures were determined to be a compound instrument with a debt and equity component. Based on the calculated fair value of the debentures, the effective interest rate was 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 8.

6. SUBORDINATED TERM DEBT

As at September 30, 2023 the Company has a second lien, non-revolving subordinated term debt facility ("Subordinated Term Debt"). The amount drawn under the Subordinated Term Debt at September 30, 2023 was \$80,750,000 (December 31, 2022 - \$95,000,000). 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.

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 effective interest rate was calculated by discounting future payments of interest and principal with the residual value allocated to issue costs of \$6,310,000. The value of the debt will accrete up to the principal balance at maturity. Interest paid in 2023 was \$8,450,000 (September 30, 2022 - \$Nil).

Security for the Subordinated Term Debt consists of various floating demand debentures totaling \$150,000,000 (December 31, 2022 - \$150,000,000) over all the Company's assets and a general security agreement with second ranking over all personal and real property.

As at September 30, 2023, Bonterra was in compliance with all financial covenants on its second lien Subordinated Term Debt facility (as described in Note 4).

7. INCOME TAXES

(\$ 000s)	September 30, 2023	December 31, 2022
Deferred tax asset (liability) related to:		
Investments	(93)	(120)
Exploration and evaluation assets and property, plant and equipment	(144,828)	(145,019)
Investment tax credits	(980)	(2,040)
Decommissioning liabilities	23,060	25,700
Share issue costs	1,248	1,566
Financial derivative	520	(184)
Subordinated debenture	(1,658)	(2,125)
Subordinated term debt	(1,031)	(1,408)
Corporate capital tax losses carried forward	7,448	7,449
Unrecorded benefits of capital tax losses carried forward	(7,355)	(7,329)
Unrecorded benefits of successored resource related pools	(4,009)	(4,009)
Deferred tax liability	(127,678)	(127,519)

Income tax expense varies from the amounts that would be computed by applying Canadian federal and provincial tax rates as follows:

(\$ 000s)	Three Months		Nine Months	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Earnings before taxes	17,645	22,869	41,323	82,216
Combined federal and provincial income tax rates	23.02%	23.03%	23.02%	23.03%
Income tax provision calculated using statutory tax rates	4,061	5,267	9,510	18,934
Increase (decrease) in taxes resulting from:				
Share-option compensation	108	121	525	294
Amendment of prior period tax return	-	-	1,319	-
Renouncement of tax pool on flow through share issuance	-	-	-	1,257
Change in unrecorded benefits of tax pools	(10)	(159)	26	(203)
Change in estimates and other	-	(56)	(27)	175
	4,159	5,173	11,353	20,457

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	70,016
Share issue costs	20	5,422
Canadian oil and gas property expenditures	10	62,618
Canadian development expenditures	30	131,402
Canadian exploration expenditures	100	8,587
		278,045

The Company has \$nil (December 31, 2022 - \$5,761,000) of investment tax credits.

The Company has \$64,725,000 (December 31, 2022 - \$64,725,000) of capital losses carried forward which can only be claimed against taxable capital gains.

8. 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, 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

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 periods ended, are as follows:

	Three Months		Nine Months	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Basic shares outstanding	37,244,467	36,173,360	37,180,617	35,786,301
Dilutive effect of share options and warrants ⁽¹⁾	108,318	1,273,586	148,978	1,579,078
Diluted shares outstanding	37,352,785	37,446,946	37,329,595	37,365,379

⁽¹⁾ The Company did not include 5,032,500 share-options and warrants for the three months ended September 30, 2023 (September 30, 2022 – 1,167,500) and 5,037,500 share-options and warrants for the nine months ended September 30, 2023 (September 30, 2022 – 1,167,500) 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, 2023 and changes during the period are presented below:

	Number of warrants	Weighted exercise price
At December 31, 2022 and September 30, 2023	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 3,724,447 (December 31, 2022 – 3,691,289 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, 2023 and changes during the period are presented below:

	Number of options	Weighted average exercise price
At December 31, 2022	2,751,750	\$6.86
Options granted	233,000	6.62
Options exercised ⁽¹⁾	(434,250)	2.95
Options forfeited	(5,000)	8.13
Options expired	(45,000)	5.18
At September 30, 2023	2,500,500	\$7.54

⁽¹⁾ 234,500 options were exercised under the cashless option method, which resulted in 131,825 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, 2023:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable	Weighted-average exercise price
\$ 1.00 - \$ 5.00	211,000	1.0 years	\$ 3.28	137,500	\$ 2.72
5.01 - 10.00	2,244,500	3.9 years	7.85	324,650	8.88
10.01 - 15.00	45,000	1.7 years	12.32	15,000	12.32
\$ 1.00 - \$ 15.00	2,500,500	3.6 years	\$ 7.54	477,150	\$ 7.38

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 2023, the Company granted 233,000 options with an estimated fair value of \$531,000 or \$2.28 per option using the Black-Scholes option pricing model with the following key assumptions:

	September 30, 2023
Weighted-average risk free interest rate (%) ⁽¹⁾	3.90
Weighted-average expected life (years)	2.0
Weighted-average volatility (%) ⁽²⁾	64.55
Forfeiture rate (%)	6.75
Weighted average dividend yield (%)	1.84

⁽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.

9. OIL AND GAS SALES, NET OF ROYALTIES

(\$ 000s)	Three months		Nine months	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Oil and gas sales				
Crude oil	68,883	68,166	191,536	229,342
Natural gas liquids	6,383	7,155	17,044	20,893
Natural gas	9,643	13,506	29,198	46,808
	84,909	88,827	237,778	297,043
Less royalties:				
Crown	(7,382)	(14,240)	(23,505)	(33,603)
Freehold, gross overriding royalties and other	(3,267)	(3,934)	(9,639)	(13,191)
	(10,649)	(18,174)	(33,144)	(46,794)
Oil and gas sales, net of royalties	74,260	70,653	204,634	250,249

10. SUPPLEMENTAL CASH FLOW INFORMATION

(\$ 000s)	Three months		Nine months	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Change in non-cash working capital:				
Accounts receivable	(4,827)	12,753	(4,618)	(1,429)
Crude oil inventory	(5)	(6)	132	(109)
Prepaid expenses	1,953	1,028	187	(309)
Investment tax credit receivable	-	-	5,761	-
Abandonment deposit	-	(102)	(6)	(2,220)
Accounts payable and accrued liabilities	9,926	8,172	14,380	13,222
	7,047	21,845	15,836	9,155
Changes related to:				
Operating activities	(4,879)	13,414	(6,534)	6,912
Investing activities	11,926	8,431	22,370	2,243
	7,047	21,845	15,836	9,155

Finance expense

(\$ 000s)	Three months		Nine months	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Interest expense:				
Bank and subordinated debt	867	2,348	2,718	7,362
Subordinated debenture	1,328	1,328	3,983	3,983
Subordinated term debt	2,748	-	8,450	-
	4,943	3,676	15,151	11,345
Accretion:				
Decommissioning liabilities	956	1,179	2,827	2,597
Subordinated debentures	706	603	2,026	1,730
Subordinated term debt	522	-	1,640	-
	2,184	1,782	6,493	4,327
Total finance costs	7,127	5,458	21,644	15,672
Interest expense	4,943	3,676	15,151	11,345
Interest accrued	(1,327)	(1,327)	(1,327)	(1,321)
Interest paid	3,616	2,349	13,824	10,024

11. 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 debentures
- Subordinated term debt

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

The Company's overall risk management program seeks to mitigate these risks and reduce the volatility of Bonterra'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 of Bonterra'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 Bonterra 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 Bonterra 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 \$31,944,000 accounts receivable balance at September 30, 2023 (December 31, 2022 - \$27,326,000) over 91 percent (December 31, 2022 – 93 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 three and nine months ended September 30, 2023, 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.

As at September 30, 2023, approximately \$1,316,000 or 1.5 percent of the Company's total accounts receivable are aged over 90 days and considered past due (December 31, 2022 - \$262,000 or 1.1 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, 2023 is \$1,945,000 (December 31, 2022 - \$1,248,000) 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. At September 30, 2023, the Company had a net debt to cash flow level of 1.3:1 compared to 0.8:1 as 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 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 second half 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.

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, 2023	December 31, 2022
Bank debt	26,613	17,601
Subordinated debentures	53,124	49,770
Subordinated term debt ⁽¹⁾	57,272	69,882
Current liabilities	72,122	56,805
Current assets	(41,682)	(44,227)
Net debt	167,449	149,831
Cash flow from operations (trailing twelve months)	131,081	183,553
Net debt to cash flow ratio	1.3	0.8

⁽¹⁾ Included in current liabilities is the current portion of the Subordinated Term Debt of \$19,000,000 (December 31, 2022 - \$20,193,000)

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 of Bonterra'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, 2023, the Company has the following physical delivery sales contracts in place.

Product	Type of contract	Volume	Term	Contract price (\$)
Oil	Fixed price - WTI ⁽¹⁾	500 BBL/day	Oct 1, 2023 to Dec 31, 2023	90.25 USD/BBL
Oil	Physical collar - WTI ⁽¹⁾	200 BBL/day	Apr 1, 2024 to Jun 30, 2024	70.00 to 90.00 USD/BBL
Gas	Physical collar - AECO Monthly ⁽⁵⁾	5,000 GJ/day	Oct 1, 2023 to Dec 31, 2023	2.75 to 3.75 CAD/GJ
Gas	Physical collar - AECO Monthly ⁽⁵⁾	5,000 GJ/day	Jan 1, 2024 to Mar 31, 2024	2.75 to 3.45 CAD/GJ
Gas	Physical collar - AECO Monthly ⁽⁵⁾	6,000 GJ/day	Apr 1, 2024 to Jun 30, 2024	2.15 to 2.75 CAD/GJ
Gas	Fixed Price - AECO Daily ⁽⁴⁾	2,500 GJ/day	Nov 1, 2023 to Dec 31, 2023	2.75 CAD/GJ
Gas	Fixed Price - AECO Daily ⁽⁴⁾	2,500 GJ/day	Apr 1, 2023 to Oct 31, 2023	2.55 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, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Risk management contracts				
Realized gain (loss)	680	(3,103)	1,773	(15,633)
Unrealized gain (loss)	(3,266)	11,046	(3,058)	5,611
	(2,586)	7,943	(1,285)	(10,022)

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, 2023.

Product	Type of contract	Volume	Term	Contract price (\$)
Oil	Financial collar - WTI	500 BBL/day	Oct 1, 2023 to Dec 31, 2023	60.00 to 86.75 USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Oct 1, 2023 to Dec 31, 2023	60.00 to 90.00 USD/BBL
Oil	Financial collar - WTI	600 BBL/day	Oct 1, 2023 to Dec 31, 2023	50.00 to 89.60 USD/BBL
Oil	Financial collar - WTI	600 BBL/day	Oct 1, 2023 to Dec 31, 2023	50.00 to 93.00 USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Jan 1, 2024 to Mar 31, 2024	50.00 to 88.25 USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Jan 1, 2024 to Mar 31, 2024	50.00 to 84.85 USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Jan 1, 2024 to Mar 31, 2024	50.00 to 85.00 USD/BBL
Oil	Financial collar - WTI	300 BBL/day	Jan 1, 2024 to Mar 31, 2024	50.00 to 85.50 USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Jan 1, 2024 to Mar 31, 2024	50.00 to 85.60 USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Apr 1, 2024 to Jun 30, 2024	60.00 to 93.35 USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Apr 1, 2024 to Jun 30, 2024	60.00 to 92.00 USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Apr 1, 2024 to Jun 30, 2024	65.00 to 92.85 USD/BBL
Oil	Financial collar - WTI	400 BBL/day	Apr 1, 2024 to Jun 30, 2024	65.00 to 93.75 USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Jul 1, 2024 to Sep 30, 2024	70.00 to 90.00 USD/BBL
Gas	Financial collar - AECO Monthly	5,000 GJ/day	Oct 1, 2023 to Dec 31, 2023	2.50 to 3.42 CAD/GJ
Gas	Financial collar - AECO Monthly	5,000 GJ/day	Jan 1, 2024 to Mar 31, 2024	2.75 to 3.56 CAD/GJ
Gas	Financial collar - AECO Monthly	5,000 GJ/day	Apr 1, 2024 to Jun 30, 2024	2.25 to 2.71 CAD/GJ

Subsequent to September 30, 2023, the Company entered into the following risk management contract.

Product	Type of contract	Volume	Term	Contract price (\$)
Oil	Financial collar - WTI	500 BBL/day	Jul 1, 2024 to Dec 31, 2024	65.00 to 92.80 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, 2023, the Company's debt facilities consist of a \$85,000,000 syndicated revolving credit facility, and a \$25,000,000 non-syndicated revolving credit facility, \$80,750,000 second lien Subordinated Term 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. The subordinated debt has a fixed interest rate of 11.7 percent for a quarter of the outstanding balance and prime plus 6.25 percent for the remaining outstanding balance. 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 \$671,000.

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.

12. COMMITMENTS AND FINANCIAL LIABILITIES

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

(\$ 000s)	Recognized on Financial Statements	Less than 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 7 years	Total
Accounts payable and accrued liabilities	Yes - Liability	49,953	-	-	-	49,953
Bank debt	Yes - Liability	-	26,613	-	-	26,613
Subordinated debentures ⁽¹⁾	Yes - Liability	-	59,000	-	-	59,000
Subordinated term debt ⁽¹⁾	Yes - Liability	19,000	38,000	23,750	-	80,750
Future interest	No	14,692	17,076	516	-	32,284
Firm service commitments	No	1,061	1,831	1,062	263	4,217
Office lease commitments	No	437	1,004	87	-	1,528
Total		85,143	143,524	25,415	263	254,345

⁽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 3.2 years.

13. 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 \$782,000 of asset retirement obligations as an in-kind grant (September 30, 2022 - \$2,403,000). The benefit of the in-kind grant is recognized through other income.

CORPORATE INFORMATION

Board of Directors

D. Michael G. Stewart - Chair
John J. Campbell
David M. Humphreys
Stacey E. McDonald
Patrick G. Oliver
Jacqueline R. Ricci
Rodger A. Tourigny

Officers

Patrick G. Oliver, President and CEO
Robb D. Thompson, CFO and Corporate Secretary
Adrian Neumann, Chief Operating Officer
Brad A. Curtis, Senior VP, Business Development

Registrar and Transfer Agent

Odyssey Trust Company

Auditors

Deloitte LLP

Solicitors

Borden Ladner Gervais LLP

Bankers

CIBC
ATB Financial
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