

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, 2024	December 31, 2023
Assets			
Current			
Accounts receivable		24,603	25,364
Crude oil inventory		935	893
Prepaid expenses		5,377	6,912
Risk management contract	11	3,539	2,357
Investments		-	1,634
		34,454	37,160
Exploration and evaluation assets		6,537	5,785
Property, plant and equipment	3	941,265	924,925
		982,256	967,870
Liabilities			
Current			
Accounts payable and accrued liabilities		39,460	37,226
Subordinated term debt	6	19,000	19,000
Deferred consideration		841	909
Decommissioning liabilities		5,161	5,040
		64,462	62,175
Bank debt	4	41,871	14,822
Subordinated debentures	5	56,291	52,585
Subordinated term debt	6	40,108	53,018
Deferred consideration		7,556	8,170
Decommissioning liabilities		100,703	118,068
Deferred tax liability	7	128,921	130,774
		439,912	439,612
Shareholders' equity			
Share capital	8	783,366	783,185
Contributed surplus		35,677	34,023
Warrants	8	6,053	6,053
Accumulated other comprehensive income		-	436
Deficit		(282,752)	(295,439)
		542,344	528,258
		982,256	967,870
Subsequent event	11		
Commitments and contingencies	12		

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the periods ended September 30 (unaudited) (\$ 000s, except \$ per share)	Note	Three months		Nine months	
		2024	2023	2024	2023
Revenue					
Oil and gas sales, net of royalties	9	58,410	74,260	180,127	204,634
Other income		109	195	610	1,320
Deferred consideration		223	232	682	735
Gain (loss) on risk management contracts	11	3,304	(2,586)	3,125	(1,285)
		62,046	72,101	184,544	205,404
Expenses					
Production		22,611	21,844	66,792	64,461
Office and administration		623	1,201	3,928	4,011
Employee compensation		1,795	1,829	5,238	5,275
Finance costs	10	6,608	7,127	19,964	21,644
Share-option compensation		588	471	1,785	2,282
Depletion and depreciation	3	24,124	21,984	70,311	66,408
		56,349	54,456	168,018	164,081
Earnings before income taxes		5,697	17,645	16,526	41,323
Taxes					
Current income tax expense		204	2,579	5,942	11,167
Deferred income tax expense (recovery)		1,235	1,580	(1,832)	186
		1,439	4,159	4,110	11,353
Net earnings for the period		4,258	13,486	12,416	29,970
Other comprehensive gain (loss)					
Unrealized gain (loss) on investments		-	82	(186)	(235)
Deferred taxes on unrealized (gain) loss on investments		-	(9)	21	28
Realized gains on available for sale investments transferred to net earnings		-	-	(306)	-
Deferred taxes on realized gains on available for sale investments transferred to net earnings		-	-	35	-
Other comprehensive gain (loss) for the period		-	73	(436)	(207)
Total comprehensive income for the period		4,258	13,559	11,980	29,763
Net earnings per share - basic	8	0.11	0.36	0.33	0.81
Net earnings per share - diluted	8	0.11	0.36	0.33	0.80
Comprehensive income per share - basic	8	0.11	0.36	0.32	0.80
Comprehensive income per share - diluted	8	0.11	0.36	0.32	0.80

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	
		2024	2023	2024	2023
Operating activities					
Net earnings		4,258	13,486	12,416	29,970
Items not affecting cash					
Deferred income tax recovery		1,235	1,580	(1,832)	186
Share-option compensation		588	471	1,785	2,282
Investment income		(60)	(104)	(280)	(320)
Finance costs		6,608	7,127	19,964	21,644
Unrealized (gain) loss on risk management contracts	11	(2,101)	3,266	(1,182)	3,058
Deferred consideration		(223)	(232)	(682)	(735)
Depletion and depreciation	3	24,124	21,984	70,311	66,408
Gain on sale of property		-	(17)	(153)	(17)
Government grant in-kind		-	-	-	(782)
Decommissioning expenditures		(2,384)	(1,351)	(4,994)	(5,749)
Interest paid	10	(3,095)	(3,616)	(12,179)	(13,824)
Changes in non-cash working capital accounts	10	2,581	(4,879)	3,191	(6,534)
Cash provided by operating activities		31,531	37,715	86,365	95,587
Financing activities					
Increase (decrease) of bank debt	4	(18)	(8,893)	27,049	9,012
Subordinated term debt	6	(4,750)	(4,750)	(14,250)	(15,443)
Stock option proceeds		-	-	50	595
Cash provided by (used in) financing activities		(4,768)	(13,643)	12,849	(5,836)
Investing activities					
Investment income received		60	104	280	320
Exploration and evaluation expenditures		(230)	(737)	(944)	(1,221)
Property, plant and equipment expenditures	3	(23,865)	(35,393)	(77,694)	(111,248)
Oil and gas property acquisition	3	-	-	(23,586)	-
Proceeds on sale of property		-	28	-	28
Proceeds on sale of investments		-	-	1,448	-
Changes in non-cash working capital accounts	10	(2,728)	11,926	1,282	22,370
Cash used in investing activities		(26,763)	(24,072)	(99,214)	(89,751)
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		901	1,371	6,106	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⁾	Deficit	Total shareholders' equity
January 1, 2023	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
Share-option compensation			946				946
Exercise of options	8,785	1					1
Transfer to share capital on exercise of options		8	(8)				-
Comprehensive income (loss)					(141)	14,973	14,832
December 31, 2023	37,253,252	783,185	34,023	6,053	436	(295,439)	528,258
Share-option compensation			1,785				1,785
Exercise of options	71,628	50					50
Transfer to share capital on exercise of options		131	(131)				-
Comprehensive income (loss)					(165)	12,416	12,251
Transfer on realized gain on investments, net of tax					(271)	271	-
September 30, 2024	37,324,880	783,366	35,677	6,053	-	(282,752)	542,344

⁽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, 2024 and December 31, 2023 for the three and nine months ended September 30, 2024 and September 30, 2023 (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. The common shares of the Company (the “Common Shares”) are listed for trading on the 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.

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 2023 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 2023 audited annual financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS®).

b) Adopted Accounting Pronouncements

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

On January 1, 2024 the Company adopted the scope 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. There was no material impact to Bonterra’s financial statements from its adoption.

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

On January 1, 2024 the Company adopted 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. There was no material impact to Bonterra’s financial statements from its adoption.

c) Future Accounting Pronouncements

IFRS 18 – Presentation and Disclosure in Financial Statements

On April 9, 2024 the IASB® issued IFRS 18, “Presentation and Disclosure in Financial Statements” (“IFRS 18”), which will replace International Accounting Standard 1, “Presentation of Financial Statements”. IFRS 18 will establish a revised structure for the Consolidated Statements of Comprehensive Income (Loss) and improve comparability across entities and reporting periods. IFRS 18 is effective for annual periods beginning on or after January 1, 2027, with early adoption permitted. The standard is to be applied retrospectively, with certain transition provisions. The Company is currently evaluating the impact of adopting IFRS 18 on its financial statements.

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, 2023	1,655,513	446,131	2,811	2,104,455
Additions	50,561	27,074	59	77,694
Acquisition	19,354	4,880	-	24,234
Adjustment to decommissioning liabilities	(15,261)	-	-	(15,261)
Balance at September 30, 2024	1,710,167	478,085	2,870	2,191,122
			Furniture fixtures & other equipment	Total property plant & equipment
Accumulated depletion and depreciation (\$ 000s)	Oil and gas properties	Production facilities	Furniture fixtures & other equipment	Total property plant & equipment
Balance at December 31, 2023	(962,387)	(215,046)	(2,097)	(1,179,530)
Depletion and depreciation	(56,141)	(14,085)	(85)	(70,311)
Disposal and other	(16)	-	-	(16)
Balance at September 30, 2024	(1,018,544)	(229,131)	(2,182)	(1,249,857)
Carrying amounts as at: (\$ 000s)				
December 31, 2023	693,126	231,085	714	924,925
September 30, 2024	691,623	248,954	688	941,265

Asset Acquisition of Oil and Natural Gas Property

On March 1, 2024, the Company acquired the Charlie Lake assets for cash consideration of \$23.6 million and \$0.3 million in non-core mineral rights, including closing adjustments (the “Charlie Lake Asset Acquisition”). This acquisition has been accounted for as an asset acquisition, which resulted in a \$24.2 million increase in PP&E and the assumption of \$0.3 million in decommissioning liabilities.

Impairment

There were no indicators of impairment identified for each of the three and nine months ended September 30, 2024 and 2023.

4. BANK DEBT

As at September 30, 2024 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, 2024

was \$41,871,000 (December 31, 2023 - \$14,822,000). 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, 2024, the terms of the total revolving Bank Facility provided that the loan facility was revolving to April 30, 2025, with a maturity date of April 30, 2026, with no set terms of repayment on the credit facility.

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, 2024 (December 31, 2023 - \$2,130,000). Security for the Bank Facility consists of various floating demand debentures totaling \$750,000,000 (December 31, 2023 - \$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, 2023 and evaluated on strip commodity pricing, divided by the consolidated debt of the Company. The ratio is calculated and revaluated for strip pricing on September 30 and December 31 period ends. As at September 30, 2024, Bonterra was in compliance with all financial covenants on its Bank Facility.

5. SUBORDINATED DEBENTURES

As at September 30, 2024 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. In the first nine months of 2024 \$2,655,000 of interest was paid (September 30, 2023 - \$2,655,000). Interest accrued in the first nine months of 2024 was \$1,328,000 (September 30, 2023 - \$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, 2024 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, 2024 was \$61,750,000 (December 31, 2023 - \$76,000,000). 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, upon 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, 2024, the effective interest rate was determined to be 15.8 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 the first nine months of 2024 was \$6,707,000 (September 30, 2023 - \$8,450,000).

Security for the Subordinated Term Debt consists of various floating demand debentures totaling \$150,000,000 (December 31, 2023 - \$150,000,000) over all of the Company's assets and a general security agreement with second ranking over all personal and real property.

As at September 30, 2024, Bonterra was in compliance with all financial covenants on its second lien Subordinated Term Debt facility (as described in Note 4).

7. INCOME TAXES

The Company has the following tax pools, which may be used to reduce taxable income in future years, limited to the applicable rates of utilization:

(\$ 000s)	Rate of Utilization (%)	Amount
Undepreciated capital costs	7-100	77,248
Share issue and financing costs	20	3,574
Canadian oil and gas property expenditures	10	74,657
Canadian development expenditures	30	131,433
Canadian exploration expenditures	100	8,587
		295,499

The Company has \$64,111,000 (December 31, 2023 - \$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, 2023	37,253,252	783,185
Issued pursuant to the Company's share option plan	71,628	50
Transfer from contributed surplus to share capital		131
Balance, September 30, 2024	37,324,880	783,366

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

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

	Three Months		Nine Months	
	2024	2023	2024	2023
Basic shares outstanding	37,324,238	37,244,467	37,294,865	37,180,617
Dilutive effect of share options and warrants ⁽¹⁾	5,350	108,318	33,292	148,978
Diluted shares outstanding	37,329,588	37,352,785	37,328,157	37,329,595

⁽¹⁾ The Company did not include 5,871,000 share-options and warrants for the three months ended September 30, 2024 (September 30, 2023 – 5,032,500) and 5,837,667 share-options and warrants for the nine months ended September 30, 2024 (September 30, 2023 – 5,037,500) 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, 2024 and changes during the period are presented below:

	Number of warrants	Weighted exercise price
As at September 30, 2024 and December 31, 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 3,732,488 (December 31, 2023 – 3,725,325 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, 2024 and changes during the period are presented below:

	Number of options	Weighted average exercise price
At December 31, 2023	3,260,000	\$6.87
Options granted	147,000	4.81
Options exercised ⁽¹⁾	(118,500)	2.67
Options forfeited	(98,000)	7.24
Options expired	(37,500)	8.13
At September 30, 2024	3,153,000	\$6.91

⁽¹⁾ 108,500 options were exercised under the cashless option method, which resulted in 61,628 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, 2024:

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	165,000	3.2 years	\$ 4.37	65,000	\$ 4.35
5.01 - 10.00	2,958,000	3.3 years	6.99	1,000,838	8.20
10.01 - 15.00	30,000	1.2 years	12.32	15,000	12.32
\$ 1.00 - \$ 15.00	3,153,000	3.3 years	\$ 6.91	1,080,838	\$ 8.03

The Company records compensation expense equally over the annual three year vesting period, based on the fair value of options granted to directors, officers and employees. In 2024, the Company granted 147,000 options with an estimated fair value of \$198,000 or \$1.35 per option using the Black-Scholes option pricing model with the following key assumptions:

	September 30, 2024
Weighted-average risk free interest rate (%) ⁽¹⁾	3.46
Weighted-average expected life (years)	2.0
Weighted-average volatility (%) ⁽²⁾	45.79
Forfeiture rate (%)	6.15

⁽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, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Oil and gas sales				
Crude oil	58,774	68,883	173,423	191,536
Natural gas liquids	6,714	6,383	18,688	17,044
Natural gas	3,716	9,643	18,147	29,198
	69,204	84,909	210,258	237,778
Less royalties:				
Crown	(7,631)	(7,382)	(20,906)	(23,505)
Freehold, gross overriding royalties and other	(3,163)	(3,267)	(9,225)	(9,639)
	(10,794)	(10,649)	(30,131)	(33,144)
Oil and gas sales, net of royalties	58,410	74,260	180,127	204,634

10. SUPPLEMENTAL CASH FLOW INFORMATION

(\$ 000s)	Three months		Nine months	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Change in non-cash working capital:				
Accounts receivable	(1,462)	(4,827)	761	(4,618)
Crude oil inventory	17	(5)	(27)	132
Prepaid expenses	2,461	1,953	1,535	187
Investment tax credit receivable	-	-	-	5,761
Abandonment deposit	(3)	-	(30)	(6)
Accounts payable and accrued liabilities	(1,160)	9,926	2,234	14,380
	(147)	7,047	4,473	15,836
Changes related to:				
Operating activities	2,581	(4,879)	3,191	(6,534)
Investing activities	(2,728)	11,926	1,282	22,370
	(147)	7,047	4,473	15,836
Finance expense				
(\$ 000s)	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Interest expense:				
Bank debt	1,026	867	2,817	2,718
Subordinated debenture	1,328	1,328	3,983	3,983
Subordinated term debt	2,069	2,748	6,707	8,450
	4,423	4,943	13,507	15,151
Accretion:				
Decommissioning liabilities	940	956	2,739	2,827
Subordinated debentures	821	706	2,378	2,026
Subordinated term debt	424	522	1,340	1,640
	2,185	2,184	6,457	6,493
Total finance costs	6,608	7,127	19,964	21,644
Interest paid:				
Expense	4,423	4,943	13,507	15,151
Change in interest accrued	(1,328)	(1,327)	(1,328)	(1,327)
Total interest paid	3,095	3,616	12,179	13,824

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
- 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 and liquidity risk.

The Company's overall risk management program seeks to mitigate these risks and reduce the volatility on Bonterra's financial performance. Financial risk is managed by senior management under the direction of the Board of Directors.

Bonterra 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. The Company does not speculatively trade in risk management contracts. Bonterra'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 crude oil inventory levels, domestic infrastructure constraints, global economic and geopolitical factors. Bonterra continues to retain available committed borrowing capacity that provides it 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. Bonterra is exposed to credit risk on all financial assets included on the statement of financial position. To help mitigate this risk:

- The Company only enters into material agreements with credit worthy counterparties. These include major oil and gas companies or major Canadian chartered banks; and
- Agreements for product sales are primarily on 30-day renewal terms. Of the \$24,603,000 accounts receivable balance at September 30, 2024 (December 31, 2023 - \$25,364,000) over 78 percent (December 31, 2023 – 83 percent) relate to product sales or risk management contracts with national and international banks and oil and gas companies.

On a quarterly basis, Bonterra assesses if there has been any impairment of the financial assets of the Company. During the nine months ended September 30, 2024, 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 Bonterra'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, 2024, approximately \$1,339,000 or 5.4 percent of the Company's total accounts receivable are aged over 90 days and considered past due (December 31, 2023 - \$591,000 or 2.3 percent). The majority of these accounts are due from various joint venture partners. Bonterra 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 Bonterra 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, 2024 is \$1,768,000 (December 31, 2023 - \$1,878,000) 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 Bonterra considers past due.

Capital Risk Management

The Company's objectives when managing capital, which it defines to include shareholders' equity, debt and working capital balances, are to safeguard Bonterra'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 its capital structure based on the ratio of net debt (total debt adjusted for working capital) to EBITDA. This ratio is calculated using each quarter end net debt divided by the preceding twelve months' EBITDA. At September 30, 2024, the Company had a net debt to EBITDA level of 1.1:1 as compared to 0.8:1 as at December 31, 2023. The increase in Bonterra's net debt to EBITDA ratio is primarily due to an increase in net debt relating to the Charlie Lake Asset Acquisition and a decrease in EBITDA from lower commodity prices. To provide cashflow protection the Company has hedged at least 30 percent of its forecasted oil and natural gas production over the next nine months.

Section (a) of this note provides Bonterra's net debt to EBITDA ratio.

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 EBITDA ratio

The net debt and EBITDA amounts are as follows:

(\$ 000s)	September 30, 2024	December 31, 2023
Bank debt	41,871	14,822
Subordinated debentures	56,291	52,585
Subordinated term debt ⁽¹⁾	40,108	53,018
Current liabilities	64,462	62,175
Current assets	(34,454)	(37,160)
Net debt	168,278	145,440
Net earnings	27,389	44,943
Adjustments to net earnings:		
Unrealized gain on risk management contracts	(5,799)	(1,559)
Deferred consideration	(956)	(1,009)
Finance costs	26,757	28,437
Share-option compensation	2,731	3,228
Depletion and depreciation	94,382	90,479
Current income tax expense	5,909	11,134
Deferred income tax expense	1,282	3,300
EBITDA (trailing twelve months)	151,695	178,953
Net debt to EBITDA ratio	1.1	0.8

⁽¹⁾ Included in current liabilities is the current portion of the Subordinated Term Debt of \$19,000,000 (December 31, 2023 - \$19,000,000).

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 Bonterra 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 Bonterra'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. Bonterra 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.

Bonterra 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 Company's 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, 2024, the Company has the following physical delivery sales contracts in place.

Product	Type of contract	Volume	Term		Contract price (\$)
Oil	Fixed price - WTI ⁽¹⁾	400 BBL/day	Oct 1, 2024	to Dec 31, 2024	82.54 USD/BBL
Gas	Fixed Price - AECO Daily ⁽⁴⁾	2,500 GJ/day	Oct 1, 2024	to Oct 31, 2025	2.39 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, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Risk management contracts				
Realized gain	1,203	680	1,943	1,773
Unrealized gain (loss)	2,101	(3,266)	1,182	(3,058)
	3,304	(2,586)	3,125	(1,285)

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.

As of September 30, 2024, the Company has the following risk management contracts in place.

Product	Type of contract	Volume	Term		Contract price (\$)		
Oil	Financial collar - WTI	500 BBL/day	Oct 1, 2024	to Dec 31, 2024	65.00	to 92.80	USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Oct 1, 2024	to Dec 31, 2024	65.00	to 84.50	USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Oct 1, 2024	to Dec 31, 2024	65.00	to 85.30	USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Oct 1, 2024	to Dec 31, 2024	65.00	to 84.00	USD/BBL
Oil	Fixed price - MSW stream index	500 BBL/day	Oct 1, 2024	to Dec 31, 2024		80.00	USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Jan 1, 2025	to Mar 31, 2025	70.00	to 86.35	USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Jan 1, 2025	to Jun 30, 2025	65.00	to 80.00	USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Jan 1, 2025	to Jun 30, 2025	65.00	to 77.50	USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Jan 1, 2025	to Jun 30, 2025	60.00	to 74.00	USD/BBL
Oil	Fixed price - MSW differential	500 BBL/day	Oct 1, 2024	to Dec 31, 2024		(2.70)	USD/BBL
Oil	Fixed price - MSW differential	500 BBL/day	Oct 1, 2024	to Dec 31, 2024		(2.50)	USD/BBL
Gas	Fixed Price - AECO Monthly	5,000 GJ/day	Oct 1, 2024	to Dec 31, 2024		2.10	CAD/GJ
Gas	Fixed Price - AECO Monthly	5,000 GJ/day	Oct 1, 2024	to Dec 31, 2024		2.04	CAD/GJ
Gas	Financial collar - AECO Monthly	5,000 GJ/day	Jan 1, 2025	to Mar 31, 2025	2.75	to 3.30	CAD/GJ
Gas	Financial collar - AECO Monthly	7,500 GJ/day	Jan 1, 2025	to Jun 30, 2025	1.75	to 2.43	CAD/GJ

Subsequent to September 30, 2024, the Company entered into the following risk management contract.

Product	Type of contract	Volume	Term		Contract price (\$)		
Oil	Financial collar - WTI	500 BBL/day	Jan 1, 2025	to Dec 31, 2025	65.00	to 75.00	USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Jul 1, 2025	to Dec 31, 2025	65.00	to 75.50	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. Bonterra's principal exposure its borrowings which have a variable interest rate which gives rise to a cash flow interest rate risk.

As of September 30, 2024, 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, \$61,500,000 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 Bonterra'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. Bonterra 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 \$679,000.

Foreign Exchange Risk

The Company has no foreign operations and currently sells all of its product sales in Canadian currency. However, Bonterra 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. It will assume full risk in respect of foreign exchange fluctuations.

12. COMMITMENTS AND FINANCIAL LIABILITIES

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

(\$ 000s)	Recognized on Financial Statements	Recognized on				Total
		Less than 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 7 years	
Accounts payable and accrued liabilities	Yes - Liability	39,460	-	-	-	39,460
Bank debt	Yes - Liability	-	41,871	-	-	41,871
Subordinated debentures ⁽¹⁾	Yes - Liability	-	59,000	-	-	59,000
Subordinated term debt ⁽¹⁾	Yes - Liability	19,000	42,750	-	-	61,750
Future interest	No	11,913	5,667	-	-	17,580
Firm service commitments	No	1,515	2,439	1,422	111	5,487
Office lease commitments	No	491	572	-	-	1,063
Total		72,379	152,299	1,422	111	226,211

⁽¹⁾Principal amount.

The Company has entered into firm service gas transportation agreements in which it 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.

Bonterra also has non-cancellable office lease commitments for building and office equipment. The building and office equipment leases have an average remaining life of 2.2 years.

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

Officers

Patrick G. Oliver, President and CEO

Scott A. Johnston, CFO and Corporate Secretary

Brad A. Curtis, Senior VP, Business Development

Registrar and Transfer Agent

Odyssey Trust Company

Auditors

Deloitte LLP

Solicitors

Borden Ladner Gervais LLP

Bankers

CIBC

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