For the three months ended March 31, 2020

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BONTERRA ENERGY REPORTS FIRST QUARTER 2020 FINANCIAL AND OPERATING RESULTS

HIGHLIGHTS

As at and for the three months ended ($000s except $ per share)		**March 31, 2020**	December 31, 2019	March 31, 2019
FINANCIAL				
Revenue - realized oil and gas sales		**38,555**	50,743	49,834
Funds flow [(1)]		**14,670**	23,055	24,363
Per share - basic and diluted		**0.44**	0.69	0.73
Dividend payout ratio		**7%**	4%	4%
Cash flow from operations		**22,473**	20,767	15,123
Per share - basic and diluted		**0.67**	0.62	0.45
Payout ratio		**4%**	5%	7%
Cash dividends per share		**0.03**	0.03	0.03
Net earnings (loss)		**(284,653)**	(1,389)	1,457
Per share - basic and diluted		**(8.53)**	(0.04)	0.04
Capital expenditures		**21,741**	5,678	21,062
Total assets		**743,533**	1,087,817	1,124,043
Working capital deficiency		**39,769**	19,745	30,139
Long-term debt		**260,919**	273,065	296,594
Shareholders' equity		**218,211**	503,949	484,980
OPERATIONS				
Oil	-bbl per day	**7,058**	7,255	7,081
	-average price ($ per bbl)	**49.67**	63.37	64.87
NGLs	-bbl per day	**999**	1,016	949
	-average price ($ per bbl)	**19.21**	24.39	31.40
Natural gas	-MCF per day	**23,864**	24,697	23,938
	-average price ($ per MCF)	**2.26**	2.71	2.70
Total barrels of oil equivalent per day (BOE)[(2)]		**12,034**	12,387	12,020

(1) Funds flow is not a recognized measure under IFRS. For these purposes, the Company defines funds flow as funds provided by operations including proceeds from sale of investments and investment income received excluding the effects of changes in non-cash working capital items and decommissioning expenditures settled.

(2) 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.

REPORT TO SHAREHOLDERS

Bonterra Energy Corp. ("Bonterra" or the "Company") faced an increasingly difficult operating environment during the first three months of 2020, which has continued into the second quarter. The COVID-19 pandemic coupled with crude oil supply and demand imbalances created extreme conditions for the oil and gas industry.

Q1 2020 Highlights

- Averaged 12,034 BOE per day of production in Q1 2020, consistent with the same period of 2019, reflecting minimal capital spending in Q4 2019 and the impact of approximately 525 BOE per day of shut-in production volumes due to low commodity prices and COVID-19.
- Generated funds flow of $14.7 million in the quarter ($0.44 per share) which was directed to the Company's first quarter capital expenditure program.
- Reduced net debt by eight percent to $300.7 million at March 31, 2020 compared to the end of Q1 2019 attributable to the Company's bank debt reduction measures, while Bonterra's more active capital program in Q1 2020 increased net debt by three percent relative to year-end 2019.
- Invested approximately $21.7 million of capital expenditures, representing approximately 75 percent of the original capital budget, with $17.3 million directed to drilling eight gross (8.0 net) wells and completing and tying-in nine gross (9.0 net) wells with an additional $4.4 million allocated primarily to infrastructure investments.
- Reinforced the financial resilience of the Company in response to the COVID-19 pandemic by suspending the monthly dividend and deferring further capital expenditures until market conditions improve.

Bonterra's Response to COVID-19

By mid-February, the global impact of COVID-19 was becoming clearer, and in the first half of March, OPEC+ changed its policy from one of restricting supply to one of increasing supply. These combined factors led to significant oil price declines and a general deterioration of global equity markets. The Company acted swiftly and chose to shut-in production volumes at the end of February, while also implementing measures to mitigate risks associated with the COVID-19 pandemic. Bonterra places the utmost priority on the health and safety of its employees, partners and other stakeholders, and took steps to facilitate a remote working environment and additional safety measures in the field. The transition to working from home has been impressively smooth for the majority of Bonterra's head office staff, which has helped to minimize disruption and sustain efficiency.

Further, the Company continued to focus on protecting its balance sheet, capturing additional efficiencies, and preserving value by deferring capital activity until prices recover. Bonterra applied for the Federal Government's Canada Emergency Wage Subsidy (CEWS), which would offer a subsidy of 75 percent of employee's wages from March 15, 2020 to June 6, 2020 and is actively monitoring the evolving COVID-19 situation. As needed, the Company is prepared to take further action to optimize its business operations over the short and longer term, with the utmost priority remaining on the health and safety of its people. The impact of this pandemic has reinforced the importance of Bonterra's debt reduction strategy, flexible capital program and the Company's high-quality, light oil weighted Cardium assets.

Bonterra's operations are very flexible and allow the Company to respond quickly to a changing commodity price environment by shutting-in production at minimal cost, without the risk of long-term reservoir impairment. Given futures prices are higher than current prices, bringing new production on stream into the current market provides significantly less value than deferring production of those barrels into the future. As a result, Bonterra has shut-in approximately 2,630 BOE per day effective May 1, 2020 and is prepared to shut-in further volumes should oil prices remain depressed in the near-term. Since the Company's production base is highly tolerant of temporary shut-ins, volumes can be rapidly restarted once oil prices dictate.

The Company has responded to this unprecedented volatility with the implementation of several operating and administrative cost reduction initiatives during April, which are estimated to provide savings of approximately $1.5 million per month on operating costs and provide an approximately 40 percent reduction in general and administration costs for the remainder of the year.

To further mitigate the continued commodity price volatility and protect future cash flow during 2020, the Company entered into physical delivery sales and risk management contracts for fixed Edmonton Light Sweet prices for crude oil and fixed AECO prices for natural gas. In Q2 2020, Bonterra will receive between $59.50 to $70.25 per bbl on 2,000 bbls per day of crude oil. For the months of May and June, the Company will also receive between $18.75 to $19.25 per bbl on an additional 1,000 bbls per day of crude oil. In addition, for Q3 2020, on 500 bbls per day of crude oil Bonterra will receive $28.35 per bbl. In the warmer months of April 1, 2020 through October 31, 2020, Bonterra diversified its natural gas pricing by entering into a physical delivery sales contract on 5,000 GJs per day ranging between $1.55 to $1.64 per GJ.

Outlook

Bonterra's syndicate of lenders has confirmed an extension to the Company's annual bank facility review and redetermination date to May 29, 2020 from April 28, 2020. This extension affords both the Company and its syndicate additional time to assess the ongoing impacts of COVID–19 and the resultant oil demand impact on current commodity pricing. The Federal Government has announced a support program intended to provide a liquidity backstop for certain types of credit facilities utilized by oil and gas companies, including Bonterra, which will be administered by the Export Development Bank of Canada ("EDC") and the Business Development Bank of Canada ("BDC"). It is expected that additional lending and credit capacity will be provided for those qualifying oil and gas producers who were deemed financially viable prior to the onset of the COVID-19 pandemic. Bonterra will pursue such support programs.

The Company expects its 2020 capital program to remain suspended until such a time when commodity prices are more supportive, and as such, has withdrawn previously communicated guidance for 2020. In the second quarter and latter half of 2020, the Company will assess existing production to determine whether further shut-ins may be required, or to facilitate a rapid ramp-up of volumes should pricing be supportive.

Bonterra is hopeful all shareholders and families are remaining safe during this very difficult time. The Board of directors and management would like to thank all shareholders for their continued support through an exceptionally difficult market atmosphere, and to all employees and consultants for their vital contributions.

George F. Fink
Chief Executive Officer and Chairman of the Board

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following report dated May 12, 2020 is a review of the operations and current financial position for the three months ended March 31, 2020 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, 2019 presented under International Financial Reporting Standards (IFRS).

Use of Non-IFRS Financial Measures

Throughout this Management's Discussion and Analysis (MD&A) the Company uses the terms "payout ratio", "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 companies.

The Company calculates payout ratio percentage by dividing cash dividends paid to shareholders by cash flow from operating activities, both of which are measures prescribed by IFRS which appear on our statement of cash flows. We calculate cash 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" refers to Alberta Energy Company, a grade or heating content of natural gas used as benchmark pricing 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; 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

	2020	2019			
As at and for the periods ended ($ 000s except $ per share)	**Q1**	Q4	Q3	Q2	Q1
Financial					
Revenue - oil and gas sales	**38,555**	50,743	47,320	54,852	49,834
Cash flow from operations	**22,473**	20,767	19,774	25,468	15,123
Per share - basic and diluted	**0.67**	0.62	0.59	0.76	0.45
Dividend payout ratio	**4%**	5%	5%	4%	7%
Cash dividends per share	**0.03**	0.03	0.03	0.03	0.03
Net earnings (loss)	**(284,653)**	(1,389)	(1,276)	23,131	1,457
Per share - basic and diluted	**(8.53)**	(0.04)	(0.04)	0.69	0.04
Capital expenditures	**21,741**	5,678	17,845	9,042	21,062
Total assets	**743,533**	1,087,817	1,133,137	1,123,513	1,124,043
Working capital deficiency	**39,769**	19,745	24,599	22,238	30,139
Long-term debt	**260,919**	273,065	283,470	288,545	296,594
Shareholders' equity	**218,211**	503,949	506,011	507,659	484,980
Operations					
Oil (barrels per day)	**7,058**	7,255	7,157	7,746	7,081
NGLs (barrels per day)	**999**	1,016	1,009	970	949
Natural gas (MCF per day)	**23,864**	24,697	23,820	23,750	23,938
Total BOE per day	**12,034**	12,387	12,136	12,674	12,020

	2018			
As at and for the periods ended ($ 000s except $ per share)	Q4	Q3	Q2	Q1
Financial				
Revenue - oil and gas sales	34,988	63,817	67,458	57,124
Cash flow from operations	20,509	33,669	31,908	29,877
Per share - basic and diluted	0.61	1.01	0.96	0.90
Dividend payout ratio	34%	30%	31%	33%
Cash dividends per share	0.21	0.30	0.30	0.30
Net earnings (loss)	(10,909)	5,756	8,925	3,395
Per share - basic and diluted	(0.33)	0.17	0.27	0.10
Capital expenditures	4,785	18,814	18,970	36,168
Total assets	1,103,833	1,137,748	1,147,501	1,142,670
Working capital deficiency	30,281	35,319	27,069	46,630
Long-term debt	298,660	293,197	303,413	291,994
Shareholders' equity	483,970	500,507	503,979	504,240
Operations				
Oil (barrels per day)	7,756	7,949	8,743	8,034
NGLs (barrels per day)	1,025	1,070	984	900
Natural gas (MCF per day)	24,045	24,144	25,317	24,701
Total BOE per day	12,789	13,043	13,946	13,051

Business Environment and Sensitivities

Bonterra's financial results are significantly 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.

	Q1-2020	Q4-2019	Q3-2019	Q2-2019	Q1-2019	Q4-2018	Q3-2018	Q2-2018
Crude oil								
WTI (U.S.$/bbl)	**46.17**	56.96	56.45	59.81	54.90	58.81	69.50	67.88
WTI to MSW Stream Index								
Differential (U.S.$/bbl)[1]	**(7.58)**	(5.37)	(4.66)	(4.62)	(4.85)	(26.30)	(6.83)	(5.45)
Foreign exchange								
U.S.$ to Cdn$	**1.3445**	1.3201	1.3207	1.3375	1.3293	1.3215	1.3070	1.2911
Bonterra average realized								
oil price (Cdn$/bbl)	**49.67**	63.37	65.49	71.27	64.87	38.96	77.20	76.51
Natural gas								
AECO (Cdn$/mcf)	**2.02**	2.46	0.91	1.03	2.61	1.55	1.19	1.18
Bonterra average realized								
gas price (Cdn$/mcf)	**2.26**	2.71	0.96	1.09	2.70	1.77	1.37	1.16

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

The overall volatility in Bonterra's average realized commodity prices can be impacted by numerous events or factors, however none has been as impactful as the negative effects of the COVID-19 pandemic.

Volatility in WTI benchmark pricing continued through the first quarter of 2020. The average WTI price decreased to US $46.17 in the quarter, as a result of the negative impact to demand caused by COVID-19, with the month of March 2020 having an average WTI price of US $30.44. Additional concern at the end of Q1 was caused by a shift in OPEC+ policy, related specifically to Russia and Saudi Arabia, from one of restricting supply to one of increasing supply. These two events combined have caused extreme downward volatility in oil prices to an extent that has not been seen before. Prices have dropped so low, and so quickly, that OPEC+ recently reverted back to a policy of supply restriction pledging cuts approaching 10 million barrels per day beginning in May. Many non-OPEC nations have seen companies cut output in response to the supply and demand imbalance.

Canadian crude oil differentials remained volatile through the first quarter of 2020. High storage levels and limited egress options suggest that this may continue over the near-term. Looking forward, there are several pipeline projects underway, with the most significant being the Enbridge Line 3 Expansion, the TransMountain Expansion, and the Keystone XL pipeline. Completion of any proposed pipeline expansion projects or increasing Canada's export capabilities by expanding capacity on existing lines will have a positive effect on the movement and pricing of Canadian barrels.

The AECO benchmark price for natural gas declined in the first quarter of 2020. A general lack of typical winter conditions across North America led to lower heating demand than forecast. Looking forward, the implementation of a Temporary Service Protocol to manage supply during maintenance periods on TC Energy's NGTL pipeline system is expected to result in more stable pricing through 2020. Beyond 2020, planned facility additions for the NGTL gas transmission system and progress by LNG Canada for the Kitimat liquefied natural gas export facility may improve sentiment towards western Canadian-based natural gas producers. While these projects do not impact near-term supply and demand imbalances, they do have positive implications for the longer term.

The following chart shows the Company's sensitivity to key commodity price variables. The sensitivity calculations are performed independently and show the effect of changing one variable while holding all other variables constant.

Annualized sensitivity analysis on cash flow, as estimated for 2020[1]

Impact on cash flow	Change ($)	$000s	$ per share[2]
Realized crude oil price ($/bbl)	1.00	2,108	0.06
Realized natural gas price ($/mcf)	0.10	813	0.02
U.S.$ to Canadian $ exchange rate	0.01	527	0.02

(1) This analysis uses current royalty rates, annualized estimated average production of 10,700 BOE per day and no changes in working capital
(2) Based on annualized basic weighted average shares outstanding of 33,388,796

Business Overview, Strategy and Key Performance Drivers

Bonterra is an upstream oil and gas company that is primarily focused on the development of its Cardium land within the Pembina and Willesden Green areas located in central Alberta. The Pembina Cardium reservoir is the largest conventional oil reservoir in western Canada that features large original oil in place with very low recoveries to date. Bonterra operates approximately 90 percent of its production and operates the majority of its related oil and gas processing facilities, which require minimal additional capital to support an increase in production.

The COVID-19 pandemic has caused severe deterioration in world oil demand leading to an unprecedented decrease in oil prices. In response, throughout March, April and May Bonterra has acted prudently to stabilize the Company's financial position and to preserve the value of its crude oil reserves for an eventual price recovery. As a result of severe volatility in global commodity markets, the Company will continue to prioritize balance sheet strength, preserve the inherent value of assets, and retain flexibility with its capital program to facilitate the rapid response to further fluctuations in the broader commodity price environment. The Company has responded to this unprecedented volatility with the suspension of capital programs and dividend distributions, as well as the implementation of several operating and administrative cost reduction initiatives. The key cost saving initiatives include:

- Suspension of the monthly dividend (effective April 1, 2020);
- Suspension of the capital program in March;
- Approximately $0.2 million of monthly Company general and administrative costs (40 percent reduction);
- Approximately $1.5 million of monthly operating cost reductions;
- Applications to Federal and Provincial economic relief and stimulus programs; and
- Supplier and vendor cost reductions across all areas of operations and administration.

The Company has taken further proactive action by shutting-in currently uneconomic production with a focus on preserving its balance sheet and improving financial flexibility.

Bonterra's operations are very flexible and allow the Company to respond quickly to a changing commodity price environment by shutting-in production at minimal cost without the risk of long-term reservoir impairment. In order to improve the ongoing business performance of the Company in these conditions, 2,630 BOE per day will be shut-in commencing May 1, 2020. Bonterra is prepared to take further action to shut-in additional production should oil prices not improve in the near term. Alternatively, the Company can rapidly restart its shut-in production once oil prices are supportive for doing so.

Bonterra remains focused on managing costs, monitoring production economics and commodity sales on a daily basis, while prioritizing the preservation of liquidity and the value of our reserves. Given the contango in the price curve, the economic benefit of realizing the proved developed producing reserve volumes at the current commodity price is significantly less than realizing these barrels in the future and discounting the proceeds to today.

To further support stability while facing severe market volatility, and as part of Bonterra's ongoing efforts to diversify crude oil pricing and to protect future cash flow, the Company entered into physical delivery sales and risk management contracts for the first nine months of 2020. During 2020, the Company received fixed Edmonton Par prices on 2,000 bbls per day of crude oil in Q1 2020 between $64.46 to $69.60 per bbl with an additional 500 bbls per day of crude oil for the month of March 2020 at $59.08 per bbl. In Q2 2020, on 2,000 bbls per day of crude oil Bonterra will receive between $59.50 to $70.25 per bbl. The Company will also receive between $18.75 to $19.25 per bbl on an additional 1,000 bbls per day of crude oil for the months of May and June. In Q3 2020, on 500 bbls per day of crude oil Bonterra will receive $28.35 per bbl. The Company also diversified its natural gas pricing for the warmer months of 2020 by entering into a physical delivery sales contracts for 5,000 GJs per day from April 1, 2020 to October 31, 2020 ranging between $1.55 to $1.64 per GJ.

The Company's capital program for the first quarter of 2020 has been safely completed and was primarily successful. Bonterra invested $21.7 million in capital, directing approximately $17.3 million to drill eight gross (8.0 net) wells, complete and tie-in nine gross (9.0 net) wells, including three gross (3.0 net) wells drilled in Q4 2019 and brought on production in Q1 2020. Of the eight wells drilled one has not been completed due to current commodity pricing and one was unsuccessful as the drill bit was lost downhole. In addition, approximately $4.4 million was directed primarily to infrastructure and recompletions. As with its base production, the new wells are highly tolerant of temporary production shut-ins and volumes can be adjusted or curtailed as pricing conditions warrant.

Bonterra's syndicate of lenders has confirmed an extension to the Company's annual bank facility review and redetermination date to May 29, 2020 from April 28, 2020. This extension affords both the Company and its syndicate additional time to assess the ongoing impacts of COVID–19 and the resultant oil demand impact on current commodity pricing.

With the difficult current economic environment, it is likely that most exploration and production companies in Canada will not conform to the standard reserve-based lending ("RBL") structures at the current future pricing scenarios. Bonterra is encouraged that the Federal Government has acknowledged the challenges facing the oil and gas industry and has announced a support program intended to provide a liquidity backstop to RBL credit facilities which will be administered through the Export Development Bank of Canada ("EDC") and the Business Development Bank of Canada ("BDC"). In working directly with the primary banking financial institutions, additional lending and credit capacity is expected to be provided to qualifying oil and gas producers that, based on certain criteria, were deemed financially viable prior to the onset of the COVID-19 pandemic.

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 levels of production, 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 operating costs per unit of production. Disclosure of these key performance measures can be found in this MD&A and/or previous interim or annual MD&A disclosures.

Drilling

	Three months ended					
		March 31, 2020		December 31, 2019		March 31, 2019
	Gross[(1)]	**Net[(2)]**	Gross[(1)]	Net[(2)]	Gross[(1)]	Net[(2)]
Crude oil horizontal-operated	**8**	**8.0**	3	3.0	11	10.7
Crude oil horizontal-non-operated	**-**	**-**	1	0.1	1	0.1
Total	**8**	**8.0**	4	3.1	12	10.8
Success rate		**88%**		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.

As outlined above, during the first quarter of 2020, the Company drilled eight gross (8.0 net) operated wells and completed nine gross (9.0 net) operated wells, of which gross nine (9.0 net) wells were tied-in and placed on production. Three of the wells completed and tied-in during Q1 2020 were drilled in late 2019. Two wells drilled in Q1 2020 were not completed as the Company chose not to complete one well due to current economic prices and one well was abandoned due to a lost drill bit downhole. The abandoned well was part of a farm-in arrangement to increase the Company's Cardium reserve base in the Ferrier field that has yet to be developed using horizontal drilling. The Company did not meet its farm-in obligation. Bonterra is currently engaged in negotiations with the farmor to reach a beneficial settlement prior to the June 30, 2020 drilling obligation deadline. The Company has depleted the full amount of $955,000 related to unsuccessful drill costs.

Production

		Three months ended	
	March 31, 2020	December 31, 2019	March 31, 2019
Crude oil (barrels per day)	**7,058**	7,255	7,081
NGLs (barrels per day)	**999**	1,016	949
Natural gas (MCF per day)	**23,864**	24,697	23,938
Average BOE per day	**12,034**	12,387	12,020

Q1 2020 production remained relatively unchanged from Q1 2019 as both quarters did not benefit from capital spending in the preceding quarters of Q4 2019 and Q4 2018. In addition, an average of approximately 525 BOE per day of uneconomic shut-in production occurred in Q1 2020 as a result of depressed commodity prices due to the COVID-19 pandemic.

The Company's production decreased to 12,034 BOE per day for the first quarter of 2020 from 12,387 per day for the fourth quarter of 2019, primarily due to shut in production. In addition, the fourth quarter of 2019 benefited from the timing of new wells being brought on production from a more active drilling program in Q3 2019.

Cash Netback

The following table illustrates the calculation of the Company's cash netback from operations for the periods ended:

		Three months ended	
$ per BOE	**March 31, 2020**	December 31, 2019	March 31, 2019
Production volumes (BOE)	**1,095,135**	1,139,615	1,081,807
Gross production revenue	**35.21**	44.53	46.07
Risk management contracts realized gain (loss)	**1.45**	(0.39)	0.00
Royalties	**(2.52)**	(2.24)	(3.71)
Production costs	**(15.85)**	(16.94)	(14.85)
Field netback	**18.29**	24.96	27.51
General and administrative	**(1.55)**	(1.68)	(1.42)
Interest and other	**(3.34)**	(3.05)	(3.56)
Cash netback	**13.40**	20.23	22.53

Cash netbacks decreased in Q1 2020 compared to Q1 2019 primarily due to lower realized oil prices, which were partially offset by a decrease in royalties per BOE.

Cash netbacks for Q1 2020 decreased compared to Q4 2019 due to lower realized oil prices and an adjustment on past crown royalties paid in Q4 2019, which were partially offset by higher production costs per BOE.

Oil and Gas Sales

	Three months ended		
	March 31, 2020	December 31, 2019	March 31, 2019
Revenue - oil and gas sales ($ 000s)			
Crude oil	**31,905**	42,297	41,343
NGL	**1,747**	2,280	2,682
Natural gas	**4,903**	6,166	5,809
	38,555	50,743	49,834
Average realized prices:			
Crude oil ($ per barrel)	**49.67**	63.37	64.87
NGLs ($ per barrel)	**19.21**	24.39	31.40
Natural gas ($ per MCF)	**2.26**	2.71	2.70
Average ($ per BOE)	**35.21**	44.53	46.07
Average BOE per day	**12,034**	12,387	12,020

Revenue from oil and gas sales in 2020 decreased by $11,279,000, or 23 percent, compared to the same period in 2019. The decrease in oil and gas sales was primarily driven by a 23 percent decrease in Bonterra's realized crude oil prices from weak demand caused by the COVID-19 pandemic. Quarter over quarter oil and gas sales decreased for the same reasons.

The Company's product split on a revenue basis is weighted approximately 87 percent to crude oil and NGLs for 2020.

Royalties

	Three months ended		
($ 000s)	**March 31, 2020**	December 31, 2019	March 31, 2019
Crown royalties	**1,535**	780	2,204
Freehold, gross overriding and other royalties	**1,220**	1,770	1,810
Total royalties	**2,755**	2,550	4,014
Crown royalties - percentage of revenue	**4.0**	1.5	4.4
Freehold, gross overriding and other royalties - percentage of revenue	**3.2**	3.5	3.6
Royalties - percentage of revenue	**7.2**	5.0	8.0
Royalties $ per BOE	**2.52**	2.24	3.71

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 period ended March 31, 2020 decreased by $1.19 per BOE compared to Q1 2019. The decrease was primarily the result of a reduction in crude oil prices.

The increase in royalties in Q1 2020 compared to Q4 2019 is primarily the result of a crown royalty refund of $2.1 million, partially offset by lower crude oil prices in the current quarter. The crown royalty refund recorded in the fourth quarter of 2019 was due to a reassessment on past royalties paid.

Production Costs

	Three months ended		
($ 000s except $ per BOE)	**March 31, 2020**	December 31, 2019	March 31, 2019
Production costs	**17,364**	19,304	16,068
$ per BOE	**15.85**	16.94	14.85

Production costs for 2020 increased from the same period in 2019 despite production volumes remaining relatively unchanged. The increase in costs was primarily due to increased pipeline, well, road and lease maintenance early in the quarter. Due to weak demand from the COVID-19 pandemic the Company has shut-in 525 BOE per day of production. Absent the impact of this shut-in production, production costs on a per BOE basis would have been closer to Q1 2019.

Production costs for Q1 2020 decreased by $1,940,000 compared to Q4 2019 primarily due to decreased well and facility maintenance costs, combined with a decrease in provincial government levies that were waived by the provincial government. In addition, production costs decreased as more uneconomical production was shut-in.

Other Income

	Three months ended		
($ 000s)	**March 31, 2020**	December 31, 2019	March 31, 2019
Investment income	**11**	21	11
Administrative income	**44**	64	25
Gain on sale of property	**-**	70	2
Deferred consideration	**342**	346	322
Realized gain (loss) on risk management contracts	**1,588**	(443)	-
Unrealized gain (loss) on risk management contracts	**1,796**	(76)	-
	3,781	(18)	360

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 at March 31, 2020 was $127,000 (March 31, 2019 - $369,000). There were no dispositions for the three month period ended March 31, 2020 or March 31, 2019. 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.

Bonterra entered into financial derivatives to minimize commodity price risk on crude oil sales. The financial derivatives outstanding are for the period from January 1, 2020 to September 30, 2020. For the first quarter of 2020 a total of 91,000 barrels of crude oil (approximately 1,000 barrels of oil per day) were at fixed Edmonton Par prices ranging from $67.75 to $69.60 per barrel. For the months of May to September of 2020, Bonterra also entered into further financial derivatives to minimize commodity price risk on future crude oil sales. The financial derivatives outstanding for subsequent quarters are for a total of 76,500 barrels of crude oil (approximately 500 barrels of oil per day for the months of May to September 2020) at fixed Edmonton Par prices ranging from $19.25 to $28.35 per barrel. These contracts are not considered normal sales contracts and are recorded at fair value.

General and Administration (G&A) Expense

	Three months ended		
($ 000s except $ per BOE)	**March 31, 2020**	December 31, 2019	March 31, 2019
Employee compensation expense	**1,141**	1,367	1,096
Office and administrative expense	**553**	550	438
Total G&A expense	**1,694**	1,917	1,534
$ per BOE	**1.55**	1.68	1.42

Employee compensation expense for Q1 2020 compared to Q1 2019 remained primarily unchanged. Subsequent to the quarter, as a result of the impact of the COVID-19 pandemic, employment expenses have declined due to reduced work weeks, lower overall compensation and the Company's qualification for the Canada Emergency Wage Subsidy (CEWS) program.

Office and administrative expenses for first quarter 2020 increased by $115,000 compared to the same period in 2019 primarily due to an increase in professional consulting fees, software and a decrease in bad debt recoveries, which was partially offset by a decrease in bank charges.

Finance Costs

	Three months ended		
($ 000s except $ per BOE)	**March 31, 2020**	December 31, 2019	March 31, 2019
Interest on long-term debt	**3,448**	3,337	3,698
Other interest	**267**	222	193
Interest expense	**3,715**	3,559	3,891
$ per BOE	**3.39**	3.12	3.60
Unwinding of the discounted value of decommissioning liabilities	**779**	798	743
Total finance costs	**4,494**	4,357	4,634

Interest on long-term debt decreased in Q1 2020 compared to Q1 2019 due a $30,635,000 decrease in the average long-term bank debt balance outstanding. This was partially offset by increased interest rates as a result of a higher net debt to earnings before income taxes, depletion and amortization (or "EBITDA" as defined by the Company's bank facility) ratio for 2020 due to decreased EBITDA from reduced commodity prices. Interest rates for the current quarter are determined based on the trailing quarter and calculated by taking the ratio of total debt (excluding accounts payable and accrued liabilities) to EBITDA (defined as net income excluding finance costs, provision for current and deferred taxes, depletion and depreciation, share-option compensation, gain or loss on sale of assets and impairment of assets) multiplied by four.

Other interest relates primarily to amounts paid to a related party (see related party transactions) and a $7,500,000 subordinated promissory note from a private investor. For more information about the subordinated promissory note, refer to Note 5 of the March 31, 2020 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 $1,956,000.

Share-Option Compensation

	Three months ended		
($ 000s)	**March 31, 2020**	December 31, 2019	March 31, 2019
Share-option compensation	**56**	319	559

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.

Share-option compensation decreased by $503,000 in Q1 2020 compared to Q1 2019. This decline is primarily due to the higher share price volatility on most of the options issued in 2018 (which were fully amortized in 2019) relative to the options issued in the first quarter of 2020 (which will be fully amortized in 2021).

Based on the outstanding options as of March 31, 2020, the Company has an unamortized expense of $659,000, of which $385,000 will be recorded for the remainder of 2020; $248,000 for 2021; and $26,000 thereafter. For more information about options issued and outstanding, refer to Note 8 of the March 31, 2020 condensed financial statements.

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

		Three months ended	
	March 31,	December 31,	March 31,
($ 000s)	**2020**	2019	2019
Depletion and depreciation	**23,055**	23,718	21,305
Impairment of oil and gas assets	**331,678**	-	-

The provision for depletion and depreciation (D&D) increased in Q1 2020 compared to Q1 2019 primarily due to fully depleting drilling costs of $955,000 for an unsuccessful well. The decrease in the provision for depletion and depreciation in Q1 2020 compared to Q4 2019 is due to decreased production volumes.

At March 31, 2020 the Company determined that the carrying value of the Company's Alberta CGU exceeded its recoverable amount. A total impairment loss of $331,678,000 was recognized, with $234,302,000 recognized on the Company' property, plant and equipment (PP&E), $92,810,000 was applied to the Company's goodwill and an additional $4,566,000 was applied to the Company's E&E assets. The impairment loss was the result of the COVID-19 pandemic effect on the forward commodity benchmark prices used in impairment testing at March 31, 2020. The value of the Company's assets was estimated based on independent evaluator pricing, proved plus probable reserves and a discount rate of 15 percent. The impairment charge does not impact the Company's cash flow or the amount of credit available under our bank credit facilities. The impairment can be reversed in future periods up to the original carrying value less any associated D&D for PP&E assets, should there be indicators that the value of the assets has increased. For more information about PP&E and impairment, refer to Note 3 of the March 31, 2020 condensed financial statements.

Taxes

The Company recorded a deferred income tax recovery of $54,107,000 (2019 – $623,000 expense). The deferred income tax recovery is due to the impairment provision taken in the first quarter.

For additional information regarding income taxes, see Note 7 of the March 31, 2020 condensed financial statements.

Net Earnings (Loss)

		Three months ended	
	March 31,	December 31,	March 31,
($ 000s except $ per share)	**2020**	2019	2019
Net earnings (loss)	**(284,653)**	(1,389)	1,457
$ per share - basic	**(8.53)**	(0.04)	0.04
$ per share - diluted	**(8.53)**	(0.04)	0.04

Net earnings for 2020 decreased by $286,110,000 compared to the same period in 2019. The decrease in net earnings was attributed to the impairment provision taken as a result of significantly reduced forward commodity benchmark prices due to the effects of the COVID-19 pandemic, which was partially offset by deferred income tax recovery on the impairment provision.

Other Comprehensive Loss

Other comprehensive loss for 2020 consists of an unrealized loss before tax on investments (including investment in a related party) of $159,000 relating to a decrease in the investments' fair value (March 31, 2019 – unrealized loss of $5,000). Realized gains decrease 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)	March 31, 2020	Three months ended December 31, 2019	March 31, 2019
Cash flow from operations	**22,473**	20,767	15,123
$ per share - basic	**0.67**	0.62	0.45
$ per share - diluted	**0.67**	0.62	0.45

In 2020, cash flow from operations increased by $7,350,000 compared to 2019. This was primarily due to an increase in non-cash working capital for the timing of receivable collections and $1,588,000 realized gain on a risk management contract, which was partially offset due to decreased revenue, increased production costs and additional decommissioning liabilities settled.

The quarter-over-quarter increase in cash flow of $1,706,000 was also primarily due to an increase in non-cash working capital and a decrease in production costs, which was partially offset by decreased revenue, and a crown royalty reassessment received in Q4 2019.

Related Party Transactions

Bonterra holds 1,034,523 (December 31, 2019 – 1,034,523) common shares in Pine Cliff Energy Ltd. ("Pine Cliff") which represents less than one percent ownership in Pine Cliff's outstanding common shares. Pine Cliff's common shares had a fair market value as of March 31, 2020 of $103,000 (December 31, 2019 – $155,000). The Company provides marketing services for Pine Cliff. All services performed were charged at estimated fair value. As at March 31, 2020, the Company had an account receivable from Pine Cliff of $36,000 (December 31, 2019 – $47,000).

As at March 31, 2020, a loan to Bonterra provided by the Company's CEO, Chairman of the Board and major shareholder totaled $12,000,000 (December 31, 2019 - $12,000,000). Effective April 1, 2020, the loan's interest rate temporarily decreased from five and a half percent to three percent and has no set repayment terms but is payable on demand. Security under the debenture is over all the Company's assets and is subordinated to any and all claims in favour of the syndicate of senior lenders providing credit facilities to the Company. The Company's bank agreement requires that the above loan can only be repaid should the Company have sufficient available borrowing limits under the Company's credit facility. Interest paid on this loan for the first three months of 2020 was $164,000 (March 31, 2019 - $98,000).

Liquidity and Capital Resources

Net Debt to Cash Flow from Operations

Bonterra continues to focus on monitoring overall debt while managing its cash flow and capital expenditures. The Company's net debt to twelve-month trailing cash flow ratio as of March 31, 2020 was 3.4 to 1 times (versus 3.6 to 1 times at December 31, 2019). The lower net debt to cash flow ratio is the result of an increase in the Company's twelve-month trailing cash flow. Compared to Q1 2019, ending net debt at Q1 2020 decreased by $26,045,000 by the end of Q1 2020 due to a stronger focus on debt reduction and a lower capital spending program. Effective April 1, 2020 the Company suspended its monthly dividend. The Company's primary focus remains on managing its bank debt during a period of highly volatile commodity prices. Bonterra will continue to assess its capital expenditures compared to cash flow from operations on a quarterly basis.

Working Capital Deficiency and Net debt

($ 000s)	March 31, 2020	December 31, 2019	March 31, 2019
Working capital deficiency	**39,769**	19,745	30,139
Long-term bank debt	**260,919**	273,065	296,594
Net Debt	**300,688**	292,810	326,733

The Company has sufficient availability on its credit facility to repay both the related party loan and the subordinated promissory note, if required. During each quarter, the Company manages net debt by monitoring capital spending relative to cash flow from operations.

Net debt is a combination of long-term bank debt and working capital. Net debt for March 31, 2020 decreased by $26,045,000 compared to March 31, 2019 primarily due to a stronger focus on debt reduction and a lower capital spending program. Net debt increased from December 31, 2019 due to a more active capital program in Q1 2020, prior to suspending capital activities and dividend payments subsequent to Q1 2020 as a result of significantly reduced commodity prices related to COVID-19.

Working capital is calculated as current liabilities less current assets. The Company finances its working capital deficiency using cash flow from operations, its long-term bank facility, share issuances, option exercises and adjustments of dividend payments. Included in the working capital deficiency as at March 31, 2020 is $19,500,000 of debt relating to the subordinated promissory note and the amount due to a related party.

Financial Risk Management

The Company has entered into physical delivery sales contracts to manage commodity risk. These contracts are considered normal sales contracts and are not recorded at fair value in the financial statements. The Company also entered into risk management contracts to manage commodity risk. These contracts are not considered normal sales contracts and are recorded at fair value. For more information on physical delivery and risk management contracts in place see Note 10 of the March 31, 2020 condensed financial statements.

Capital Expenditures

During the three months ended March 31, 2020, the Company incurred capital expenditures of $21,741,000 (March 31, 2019 - $21,062,000). Of the total capital invested, $17,277,000 was directed to the drilling of eight gross (8.0 net) wells and the completion, equip and tie-in of nine gross (9.0 net) wells. Of the eight wells drilled, one was not completed due to current economic prices and one well was abandoned due to a lost drill bit downhole. An amount of $955,000 was fully depleted for unsuccessful drill costs. An additional $4,464,000 was spent primarily on related infrastructure and recompletions.

Liability Management Ratio ("LMR") Update

In the first three months of 2020, 93 percent of the Company's production was in the province of Alberta. The Company currently has an LMR rating of 1.85 in Alberta. Bonterra has entered into the Area-Based Closure ("ABC") program to reduce abandonment and reclamation costs and liabilities. The ABC program requires the Company to spend approximately $3 million this year, of which approximately half has been spent. Bonterra's abandonment program in the first quarter of 2020 included the abandonment of 45 inactive well bores and associated pipelines. The Company has also submitted applications to oilfield service providers under Alberta's Site Rehabilitation Program ("SRP") to abandon approximately 150 well bores. The government of Alberta's SRP provides grant funding through service providers to abandon or remediate oil and gas sites. As more information is known with respect to this program, Bonterra could potentially abandon additional inactive well bores.

Long-term Debt

Long-term debt represents the outstanding amounts drawn on the Company's bank facility as described in the notes to the Company's audited annual financial statements. As of March 31, 2020, the Company has a bank facility with a limit of $325,000,000 (December 31, 2019 - $325,000,000) that is comprised of a $286,765,000 syndicated revolving credit facility and a $38,235,000 non-syndicated revolving credit facility which has an accordion feature allowing the Company to obtain future funding of up to $40,000,000 for opportunities outside of normal operations, such as acquisitions, subject to unanimous lender approval. Amounts drawn under the bank facility of $325,000,000 at March 31, 2020 totaled $260,919,000 (December 31, 2019 - $273,065,000). The interest rates for the three month period ended March 31, 2020 on the Company's Canadian prime rate loan and Banker's Acceptances range between four to five percent. The loan is revolving to April 28, 2020 with a maturity date of April 29, 2021, subject to annual review. The credit facilities have no fixed terms of repayment.

The available lending limit of the bank facility is reviewed semi-annually on or before April 30 and October 31 and is based on the lender's assessment of the Company's reserves, future commodity prices and costs. Effective April 28, 2020, the syndicate of Canadian Financial Institutions have agreed to extend the borrowing base redetermination on the bank facility to May 29, 2020.

As at March 31, 2020, Bonterra had a working capital deficiency, however, was in compliance with all financial covenants on its total bank facility. Management's forecasts for 2020 are based upon current strip pricing and do not indicate a potential breach of the Company's consolidated debt (comprised of due to related party, subordinated promissory note and long-term bank debt) exceeding $325,000,000 within the next twelve months. Management's forecasts may change materially based upon actual prices received during the year, changes in future strip pricing and its future business plan. If the financial covenants are not met, the total credit facility could become due within twelve months.

Advances drawn under the bank facility are secured by a fixed and floating charge debenture over the assets of the Company. In the event the bank facility is not extended or renewed, amounts drawn under the facility would be due and payable on the maturity date. The size of the committed credit facilities is based primarily on the value of the Company's producing petroleum and natural gas assets and related tangible assets as determined by the Lenders. For more information see Note 6 of the March 31, 2020 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.

Issued and fully paid - common shares	**Number**	**Amount ($ 000s)**
Balance, March 31, 2020 and December 31, 2019	**33,388,796**	**765,276**

The Company provides a stock option plan for its directors, officers and employees. Under the plan, the Company may grant options for up to 3,338,880 (December 31, 2019 – 3,338,880) 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 options outstanding, see Note 8 of the March 31, 2020 condensed financial statements.

Dividend Policy

For the three months ended March 31, 2020, the Company declared and paid dividends of $1,002,000 ($0.03 per share) (March 31, 2019 – $1,002,000) ($0.03 per share). Bonterra's dividend policy is regularly monitored and is dependent upon production, commodity prices, cash flow from operations, debt levels and capital expenditures.

On March 10, 2020, the Company's Board of Directors elected to suspend its monthly dividend, commencing in April, in response to a significant reduction in commodity pricing. The dividend could be reestablished if the economic environment can support a sustained dividend payment.

Quarterly Financial Information

For the periods ended ($ 000s except $ per share)	2020 Q1	2019 Q4	2019 Q3	2019 Q2	2019 Q1
Revenue - oil and gas sales	**38,555**	50,743	47,320	54,852	49,834
Cash flow from operations	**22,473**	20,767	19,774	25,468	15,123
Net earnings (loss)	**(284,653)**	(1,389)	(1,276)	23,131	1,457
Per share - basic	**(8.53)**	(0.04)	(0.04)	0.69	0.04
Per share - diluted	**(8.53)**	(0.04)	(0.04)	0.69	0.04

For the periods ended ($ 000s except $ per share)	2018 Q4	2018 Q3	2018 Q2	2018 Q1
Revenue - oil and gas sales	34,988	63,817	67,458	57,124
Cash flow from operations	20,509	33,669	31,908	29,877
Net loss	(10,909)	5,756	8,925	3,395
Per share - basic	(0.33)	0.17	0.27	0.10
Per share - diluted	(0.33)	0.17	0.27	0.10

The fluctuations in the Company's revenue and net earnings from quarter-to-quarter are caused by variations in production volumes, realized commodity pricing and the related impact on royalties, production, G&A and finance costs. In the first quarter of 2020, the Company's net earnings, significantly decreased due to the COVID-19 pandemic effect on crude oil demand. Net earnings for Q2 2019 increased due to a deferred tax recovery from a decrease in the Alberta corporate income tax rate. The Canadian oil and gas industry experienced a significant decrease in the realized price for Canadian crude oil due to extremely wide differentials in Q4 2018, which also negatively impacted Bonterra's net earnings and cash flow, as well as its Q1 2019 cash flow.

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.

Forward-Looking Information

Certain statements contained in this MD&A include statements which contain words such as "anticipate", "could", "should", "expect", "seek", "may", "intend", "likely", "will", "believe" and similar expressions, relating to matters that are not historical facts, and such statements of our beliefs, intentions and expectations about development, results and events which will or may occur in the future, constitute "forward-looking information" within the meaning of applicable Canadian securities legislation and are based on certain assumptions and analysis made by us derived from our experience and perceptions. Forward-looking information in this MD&A includes, but is not limited to: expected cash provided by continuing operations; cash dividends; future capital expenditures, including the amount and nature thereof; oil and natural gas prices and demand; expansion and other development trends of the oil and gas industry; business strategy and outlook; expansion and growth of our business and operations; and maintenance of existing customer, supplier and partner relationships; supply channels; accounting policies; credit risks; and other such matters.

All such forward-looking information is based on certain assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances. The risks, uncertainties, and assumptions are difficult to predict and may affect operations, and may include, without limitation: foreign exchange fluctuations; equipment and labour shortages and inflationary costs; general economic conditions; industry conditions; changes in applicable environmental, taxation and other laws and regulations as well as how such laws and regulations are interpreted and enforced; the ability of oil and natural gas companies to raise capital; the effect of weather conditions on operations and facilities; the existence of operating risks; volatility of oil and natural gas prices; oil and gas product supply and demand; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; increased competition; stock market volatility; opportunities available to or pursued by us; and other factors, many of which are beyond our control. The foregoing factors are not exhaustive.

Actual results, performance or achievements could differ materially from those expressed in, or implied by, this forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do, what benefits will be derived therefrom. Except as required by law, Bonterra disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

The forward-looking information contained herein is expressly qualified by this cautionary statement.

Internal Controls Over Financial Reporting

The Company is required to comply with National Instrument 52-109 “Certification of Disclosure in Issuers’ Annual and Interim Filings.” The certification of interim filings for the interim period ended March 31, 2020 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 three months ended March 31, 2020.

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

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	March 31, 2020	December 31, 2019
Assets			
Current			
Accounts receivable		**11,443**	21,764
Crude oil inventory		**922**	672
Prepaid expenses		**3,306**	3,908
Risk management contract	10	**1,662**	-
Investments		**24**	131
		17,357	26,475
Investment in related party		**103**	155
Exploration and evaluation assets	3	-	3,980
Property, plant and equipment	3	**717,212**	955,536
Investment tax credit receivable	7	**8,861**	8,861
Goodwill	3	-	92,810
		743,533	1,087,817
Liabilities			
Current			
Accounts payable and accrued liabilities		**36,293**	25,423
Risk management contract	10	-	134
Due to related party	4	**12,000**	12,000
Subordinated promissory note	5	**7,500**	7,500
Deferred consideration		**1,333**	1,163
		57,126	46,220
Bank debt	6	**260,919**	273,065
Deferred consideration		**11,754**	12,266
Decommissioning liabilities		**135,504**	138,171
Deferred tax liability		**60,019**	114,146
		525,322	583,868
Shareholders' equity			
Share capital	8	**765,276**	765,276
Contributed surplus		**30,290**	30,234
Accumulated other comprehensive loss		**(887)**	(748)
Deficit		**(576,468)**	(290,813)
		218,211	503,949
		743,533	1,087,817
Subsequent events	6, 10		

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended March 31 (unaudited) ($ 000s, except $ per share)	Note	**2020**	2019
Revenue			
Oil and gas sales, net of royalties	9	**35,800**	45,820
Other income		**55**	38
Deferred consideration		**342**	322
Gain (Loss) on risk management contracts	10	**3,384**	-
		39,581	46,180
Expenses			
Production		**17,364**	16,068
Office and administration		**553**	438
Employee compensation		**1,141**	1,096
Finance costs		**4,494**	4,634
Share-option compensation		**56**	559
Depletion and depreciation	3	**23,055**	21,305
Impairment of oil and gas assets	3	**331,678**	-
		378,341	44,100
Earnings (loss) before income taxes		**(338,760)**	2,080
Taxes			
Deferred income tax expense (recovery)	7	**(54,107)**	623
		(54,107)	623
Net earnings (loss) for the period		**(284,653)**	1,457
Other comprehensive loss			
Unrealized loss on investments		**(159)**	(5)
Deferred taxes on unrealized loss on investments		**20**	1
Other comprehensive loss for the period		**(139)**	(4)
Total comprehensive income (loss) for the period		**(284,792)**	1,453
Net earnings (loss) per share - basic and diluted	8	**(8.53)**	0.04
Comprehensive income (loss) per share - basic and diluted	8	**(8.53)**	0.04

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF CASH FLOW

For the three months ended March 31 (unaudited) ($ 000s)	Note	2020	2019
Operating activities			
Net earnings		**(284,653)**	1,457
Items not affecting cash			
Deferred income taxes		**(54,107)**	623
Deferred consideration		**(342)**	(322)
Share-option compensation		**56**	559
Gain on sale of property and equipment		**-**	(2)
Unrealized gain on risk management contracts	10	**(1,796)**	-
Depletion and depreciation		**23,055**	21,305
Impairment of oil and gas assets		**331,678**	-
Unwinding of the discount on decommissioning liabilities		**779**	743
Investment income		**(11)**	(11)
Interest expense		**3,715**	3,891
Change in non-cash working capital accounts:			
Accounts receivable		**10,244**	(11,990)
Crude oil inventory		**(112)**	48
Prepaid expenses		**602**	424
Accounts payable and accrued liabilities		**(1,458)**	2,396
Decommissioning expenditures		**(1,462)**	(107)
Interest paid		**(3,715)**	(3,891)
Cash provided by operating activities		**22,473**	15,123
Financing activities			
Decrease of bank debt		**(12,146)**	(2,066)
Subordinated promissory note		**-**	(2,500)
Dividends		**(1,002)**	(1,002)
Cash used in financing activities		**(13,148)**	(5,568)
Investing activities			
Investment income received		**11**	11
Exploration and evaluation expenditures		**(586)**	-
Property, plant and equipment expenditures		**(21,155)**	(21,062)
Proceeds on sale of property		**-**	5
Change in non-cash working capital accounts:			
Accounts payable and accrued liabilities		**12,328**	11,671
Accounts receivable		**77**	(180)
Cash used in investing activities		**(9,325)**	(9,555)
Net change in cash in the period		**-**	-
Cash, beginning of period		**-**	-
Cash, end of period		**-**	-

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF CHANGES IN EQUITY

For the periods ended (unaudited)

($ 000's, except number of shares outstanding)

	Numbers of common shares outstanding (Note 8)	Share Capital (Note 8)	Contributed surplus [1]	Accumulated other Comprehensive loss [2]	Deficit	Total shareholders' equity
January 1, 2019	33,388,796	765,276	28,087	(664)	(308,729)	483,970
Share-option compensation			559			559
Comprehensive income (loss)				(4)	1,457	1,453
Dividends					(1,002)	(1,002)
March 31, 2019	33,388,796	765,276	28,646	(668)	(308,274)	484,980
Share-option compensation			1,588			1,588
Comprehensive income (loss)				(80)	20,466	20,386
Dividends					(3,005)	(3,005)
December 31, 2019	33,388,796	765,276	30,234	(748)	(290,813)	503,949
Share-option compensation			56			56
Comprehensive loss				(139)	(284,653)	(284,792)
Dividends					(1,002)	(1,002)
March 31, 2020	33,388,796	765,276	30,290	(887)	(576,468)	218,211

(1) All amounts reported in Contributed Surplus relate to share-option compensation.

(2) Accumulated other comprehensive income is comprised of unrealized gains and losses on investments fair value through other comprehensive income.

See accompanying notes to these condensed financial statements.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

As at March 31, 2020 and December 31, 2019 and for the three months ended March 31, 2020 and March 31, 2019. (unaudited)

1. NATURE OF BUSINESS AND SEGMENT INFORMATION

Bonterra Energy Corp. ("Bonterra" or the "Company") is a public company listed on the Toronto Stock Exchange (the "TSX") and incorporated under the Business Corporations Act (Alberta). The address of the Company's registered office is Suite 901, 1015-4th Street SW, Calgary, Alberta, Canada, T2R 1J4.

Bonterra operates in one industry and has only one reportable segment being 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 May 12, 2020.

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 2019 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 2019 audited annual financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

3. PROPERTY, PLANT AND EQUIPMENT

Cost ($ 000s)	**Oil and gas properties**	**Production facilities**	**Furniture fixtures & other equipment**	**Total property plant & equipment**
Balance at December 31, 2019	1,426,923	357,408	2,255	1,786,586
Additions	16,110	5,018	27	21,155
Adjustment to decommissioning liabilities	(1,984)	-	-	(1,984)
Balance at March 31, 2020	**1,441,049**	**362,426**	**2,282**	**1,805,757**

Accumulated depletion and depreciation ($ 000s)	**Oil and gas properties**	**Production facilities**	**Furniture fixtures & other equipment**	**Total property plant & equipment**
Balance at December 31, 2019	(678,265)	(150,996)	(1,789)	(831,050)
Depletion and depreciation	(19,284)	(3,755)	(16)	(23,055)
Disposal and other	(138)	-	-	(138)
Impairment	(183,337)	(50,965)	-	(234,302)
Balance at March 31, 2020	**(881,024)**	**(205,716)**	**(1,805)**	**(1,088,545)**

Carrying amounts as at: ($ 000s)				
December 31, 2019	748,658	206,412	466	955,536
March 31, 2020	**560,025**	**156,710**	**477**	**717,212**

Impairment

For the period ended March 31, 2020, the decrease in the forecast benchmark commodity prices were indicators of impairment. As a result, impairment and recovery testing were required and the Company prepared estimates of future cash flows to determine the recoverable amount of the respective assets.

The following table outlines the forecasted benchmark commodity prices and the exchange rates used in the impairment calculation of Property, plant and equipment ("PP&E") at March 31, 2020.

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030[2]
WTI Crude oil $US/Bbl [1]	31.67	42.57	50.51	58.17	60.66	61.97	63.21	64.47	65.77	67.08	68.43
AECO C-Spot $Mmbtu [1]	1.90	2.28	2.45	2.58	2.65	2.73	2.78	2.84	2.89	2.94	3.01
Exchange rate US$/$Cdn	0.71	0.73	0.75	0.76	0.77	0.77	0.77	0.77	0.77	0.77	0.77

(1) The forecast benchmark commodity prices listed above are adjusted for quality differentials, heat content, transportation and marketing costs and other factors specific to the Company's operations in performing the Company's impairment tests.

(2) Forecast benchmarks commodity prices are assumed to increase by 2.0% in each year after 2030 to end of the reserve life.

Discount rate - The Company used a pre-tax discount rate of 15 percent that reflects risks specific to the assets for which the future cash flow estimates have not been adjusted. The discount rate was determined based on the Company's assessment of risk based on experience. Changes in the general economic environment could result in material changes to this estimate.

At March 31, 2020 the Company determined that the carrying value of the Company's Alberta CGU exceeded its recoverable amount. A total impairment loss of $331,678,000 was recognized, with $234,302,000 recognized on the Company's PP&E, $92,810,000 was applied to the Company's goodwill and an additional $4,566,000 was applied to the Company's exploration and evaluation assets ("E&E"). The impairment loss was the result of the decline for the forward commodity benchmark prices used in impairment testing at March 31, 2020.

In future periods, the impairment can be reversed for PP&E up to the original carrying value less any associated depletion and depreciation, if the recoverable amounts of the Alberta CGU exceed the carrying value. Goodwill impairment cannot be reversed.

The following table summarizes the impairment expense for the period ended March 31, 2020:

CGU ($000s, except %)	Recoverable amount	Discount rate	Impairment
Alberta	580,621	15.00%	331,678

Changes in any of the key judgments, such as a revision in reserves, changes in forecast benchmark commodity prices, discount rates, foreign exchange rates, capital or operating costs would impact the recoverable amounts of assets and any recoveries or impairment changes would affect net earnings. The most sensitive assumptions to the calculation are the discount rate and forecast benchmark commodity price estimates at March 31, 2020. The following sensitivities show the resulting impact on income before tax of the changes with all other variables held constant:

CGU	Discount rate		Commodity prices	
($000s)	Increase 1%	Decrease 1%	Increase 5%	Decrease 5%
Alberta	(34,176)	37,407	71,563	(72,032)

4. TRANSACTIONS WITH RELATED PARTIES

As at March 31, 2020, a loan to Bonterra provided by the Company's CEO, Chairman of the Board and major shareholder totaled $12,000,000 (December 31, 2019 - $12,000,000). Effective April 1, 2020, the loan's interest rate temporarily decreased from five and a half percent to three percent and has no set repayment terms but is payable on demand. Security under the debenture is over all of the Company's assets and is subordinated to any and all claims in favour of the syndicate of senior lenders providing credit facilities to the Company. The Company's bank agreement requires that the above loan can only be repaid should the Company have sufficient available borrowing limits under the Company's credit facility. Interest paid on this loan during the first quarter of 2020 was $164,000 (March 31, 2019 - $98,000).

The Company provides executive and marketing services for Pine Cliff Energy Ltd. (Pine Cliff). All services performed were charged at estimated fair value. As at March 31, 2020, the Company had an account receivable from Pine Cliff of $36,000 (December 31, 2019 – $47,000)

5. SUBORDINATED PROMISSORY NOTE

As at March 31, 2020, Bonterra had $7,500,000 (December 31, 2019 - $7,500,000) outstanding on a subordinated note to a private investor. The loan bears interest at five and a half percent. The subordinated promissory note is not callable until after June 30, 2020 and only repayable after thirty days' written notice by either party. Security consists of a floating demand debenture over all of the Company's assets and is subordinated to any and all claims in favor of the syndicate of senior lenders providing credit facilities to the Company. Interest paid on the subordinated promissory note during the first three months of 2020 was $102,000 (March 31, 2019 - $92,000).

The Company's bank agreement requires that the above loan can only be repaid should the Company have sufficient available borrowing limits under the Company's credit facility.

6. BANK DEBT

As at March 31, 2020, the Company has a total bank facility of $325,000,000 (December 31, 2019 - $325,000,000), comprised of a $286,765,000 syndicated revolving credit facility and a $38,235,000 non-syndicated revolving credit facility. The amount drawn under the total bank facility at March 31, 2020 was $260,919,000 (December 31, 2019 - $273,065,000). The amounts borrowed under the bank facility bear interest at a floating rate based on the applicable Canadian prime rate or Banker's Acceptance rate, plus between 0.50 percent and 3.50 percent, depending on the type of borrowing and the Company's consolidated debt to EBITDA ratio. EBITDA is defined as net income for the period excluding finance costs, provision for current and deferred taxes, depletion and depreciation, share-option compensation, gain or loss on sale of assets and impairment of assets. The terms of the bank facility provide that the loan is revolving to April 28, 2020, with a maturity date of April 29, 2021, subject to annual review. The credit facilities have no fixed terms of repayment. The Company has an accordion feature which allows it to obtain future funding of up to $40,000,000 for opportunities outside of normal operations, such as acquisitions, subject to unanimous lender approval.

The available lending limit of the bank facility is reviewed semi-annually on or before April 30 and October 31 and is based on the lender's assessment of the Company's reserves, future commodity prices and costs. Effective April 28, 2020, the syndicate of Canadian Financial Institutions have agreed to extend the borrowing base redetermination on the bank facility to May 29, 2020.

The amount available for borrowing under the bank facility is reduced by outstanding letters of credit. Letters of credit totaling $900,000 were issued as at March 31, 2020 (March 31, 2019 - $900,000). Security for the bank facility consists of various floating demand debentures totaling $750,000,000 (December 31, 2019 - $750,000,000) over all of the Company's assets and a general security agreement with first ranking over all personal and real property.

The following is a list of the material financial covenants on the bank facility:

- The Company cannot exceed $325,000,000 in consolidated debt (comprised of due to related party, subordinated promissory note and long-term bank debt). As at March 31, 2020 consolidated debt totaled $280,419,000.
- Dividends paid in the current quarter shall not exceed 80 percent of the available cash flow for the preceding four fiscal quarters divided by four, which is calculated as five percent for the current quarter.

Available cash flow is defined to be cash provided by operating activities excluding the change in non-cash working capital and decommissioning liabilities settled and including investment income received and all net proceeds of dispositions included in cash used in investing activities. As at March 31, 2020, the Company is in compliance with all covenants.

As at March 31, 2020, Bonterra had a working capital deficiency, however, was in compliance with all financial covenants on its total bank facility. Management's forecasts for 2020 based upon current strip pricing, does not indicate a potential breach of its consolidated debt (comprised of due to related party, subordinated promissory note and long-term bank debt) exceeding $325,000,000 within the next twelve months. Management forecasts may change materially based upon actual prices received during the year, changes in future strip pricing and its future business plan. If the financial covenants are not met, the total credit facility could become due within twelve months.

7. INCOME TAXES

($ 000s)	**March 31, 2020**	December 31, 2019
Deferred tax asset (liability) related to:		
Investments	**98**	81
Exploration and evaluation assets and property, plant and equipment	**(105,184)**	(149,134)
Investment tax credits	**(2,041)**	(2,041)
Decommissioning liabilities	**31,211**	31,824
Corporate tax losses carried forward	**20,429**	6,714
Financial derivative	**(383)**	31
Corporate capital tax losses carried forward	**7,488**	7,488
Unrecorded benefits of capital tax losses carried forward	**(7,488)**	(7,488)
Unrecorded benefits of successored resource related pools	**(4,149)**	(1,621)
Deferred tax asset (liability)	**(60,019)**	(114,146)

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

($ 000s)	**March 31, 2020**	March 31, 2019
Earnings (loss) before taxes	**(338,760)**	2,080
Combined federal and provincial income tax rates	**25.02%**	27.00%
Income tax provision calculated using statutory tax rates	**(84,746)**	562
Increase (decrease) in taxes resulting from:		
Share-option compensation	**14**	151
Goodwill	**23,218**	-
Change in unrecorded benefits of tax pools	**2,528**	-
Change in estimates and other	**4,879**	(90)
	(54,107)	623

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	58,295
Canadian oil and gas property expenditures	10	77,880
Canadian development expenditures	30	100,818
Canadian exploration expenditures	100	8,587
Federal income tax losses carried forward[1]	100	101,926
Provincial income tax losses carried forward[2]	100	63,510
		411,016

[1] Federal income tax losses carried forward expire in the following years: 2035 - $8,156,000; 2036 - $35,823,000; 2037 - $182,000; 2039-2,183,000; 2040 - $55,582,000.

[2] Provincial income tax losses carried forward expire in the following years: 2036 - $ 5,563,000; 2037 - $182,000 ;2039 -2,183,000 $ 2040 - $55,582,000.

The Company has $8,861,000 (December 31, 2019 - $8,861,000) of investment tax credits that expire in the following years: 2024 - $1,319,000; 2025 - $2,258,000; 2026 - $2,405,000; 2027- $2,009,000; 2028 - $745,000; 2034 - $99,000; and 2037 - $26,000.

The Company has $65,015,000 (December 31, 2019 - $65,015,000) 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.

Issued and fully paid - common shares	**Number**	**Amount ($ 000s)**
Balance, March 31, 2020 and December 31, 2019	**33,388,796**	**765,276**

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 months ended March 31 is as follows:

	2020	2019
Basic shares outstanding	**33,388,796**	33,388,796
Dilutive effect of share options[1]	**-**	904
Diluted shares outstanding	**33,388,796**	33,389,700

[1] The Company did not include 2,782,200 share-options for the three months ended March 31, 2020 (March 31, 2019 – 2,700,000) in the dilutive effect of share-options calculations as these share-options were anti-dilutive.

For the three months ended March 31, 2020, the Company declared and paid dividends of $1,002,000 ($0.03 per share) (March 31, 2019 - $1,002,000 ($0.03 per share)). The dividend was suspended effective April 1, 2020.

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 3,338,880 (December 31, 2019 – 3,338,880 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 March 31, 2020 and changes during the year ended are presented below:

	Number of options	**Weighted average exercise price**
At December 31, 2019	1,945,000	$10.13
Options granted	993,200	3.14
Options forfeited	(144,000)	6.35
Options expired	(12,000)	20.59
At March 31, 2020	2,782,200	$7.79

The following table summarizes information about options outstanding and exercisable as at March 31, 2020:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable	Weighted-average exercise price
$ 3.00 - $ 10.00	1,906,200	1.6 years	$ 4.51	865,000	$ 5.93
10.01 - 15.00	798,000	0.5 years	14.55	794,000	14.56
15.01 - 25.00	78,000	1.0 years	18.55	23,000	20.23
$ 3.00 - $ 25.00	2,782,200	1.3 years	$ 7.79	1,682,000	$ 10.20

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. During the three months ended March 31, 2020 the Company granted 993,200 options with an estimated fair value of $705,000 or $0.71 per option using the Black-Scholes option pricing model with the following key assumptions:

	March 31, 2020
Weighted-average risk free interest rate (%)(1)	**1.47**
Weighted-average expected life (years)	**1.5**
Weighted-average volatility (%)(2)	**53.79**
Forfeiture rate (%)	**6.92**
Weighted average dividend yield (%)	**3.70**

(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)	**March 31, 2020**	March 31, 2019
Oil and gas sales		
Crude oil	**31,905**	41,343
Natural gas liquids	**1,747**	2,682
Natural gas	**4,903**	5,809
	38,555	49,834
Less royalties:		
Crown	**(1,535)**	(2,204)
Freehold, gross overriding royalties and other	**(1,220)**	(1,810)
	(2,755)	(4,014)
Oil and gas sales, net of royalties	**35,800**	45,820

10. FINANCIAL RISK MANAGEMENT

Financial Risk Factors

The Company is exposed to credit risk, liquidity risk and market risk as part of its normal course of business. The Company's overall risk management program seeks to mitigate these risks and reduce the volatility on the Company's financial performance. Financial risk is managed by senior management under the direction of the Board of Directors. Certain financial risks have been increased due to the coronavirus ("COVID-19") outbreak that has created abnormal volatility in spot prices and decreased demand for oil.

Liquidity Risk Management

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. While the decrease in commodity prices as a result of the impacts of COVID-19 pandemic and the recent actions from OPEC+ on commodity pricing will negatively impact the Company's financial performance and position, the Company continues to retain available committed borrowing capacity that provides the Company with financial flexibility and the ability to meet obligations as they become due.

Bonterra is in the process of renewing its total bank facility, which has been extended to May 29, 2020. Bonterra has made significant cost reductions during this period of commodity price uncertainty. If the facility is not renewed the bank debt could become due 366 days from the date of the review. Bonterra manages its liquidity risk through actively managing its capital, which it defines as cash, debt and equity. Capital management strategies include continuously monitoring forecasted and actual cash flow from operating, financing and investing activities. In light of the current volatility in commodity prices including uncertainty regarding the timing for recovery in such prices, along with the effect of COVID-19 on commodity demand, the preparation of financial forecasts and estimates are increasingly uncertain. Bonterra actively monitors its credit and working capital to ensure that it has sufficient available funds to meet its financial requirements at a reasonable cost. Management believes that funds generated from these sources will be adequate to settle Bonterra's financial liabilities as they become due. Any of these events present risks that could affect Bonterra's ability to fund ongoing operations. If required, Bonterra will also consider additional short-term financing or issuing equity in order to meet its future liabilities.

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 $11,443,000 accounts receivable balance at March 31, 2020 (December 31, 2019 - $21,764,000) over 90 percent (2019 – 75 percent) relates to product sales or risk management contracts with national and international banks and oil and gas companies.

On a quarterly basis, the Company assesses if there has been any impairment of the financial assets of the Company. During the three months ended March 31, 2020, there was no material impairment provision required on any of the financial assets of the Company. The Company does have a credit risk exposure as the majority of the Company's accounts receivable are with counterparties having similar characteristics. However, payments from the Company's largest accounts receivable counterparties have consistently been received within 30 days and the sales agreements with these parties are cancellable with 30 days' notice if payments are not received. At March 31, 2020, approximately $159,000 or one percent of the Company's total accounts receivable are aged over 90 days and considered past due (December 31, 2019 - $276,000 or one 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 March 31, 2020 is $1,183,000 (December 31, 2019 - $1,232,000) 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 amount of dividends, debt facilities or issue new shares.

The Company monitors capital on the basis of 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. Management believes that a net debt level as high as one and a half year's cash flow is still an appropriate level to allow it to take advantage in the future of either acquisition opportunities or to provide flexibility to develop its undeveloped resources by horizontal or vertical drill programs. During the current three month period the Company had a net debt to cash flow level of 3.4:1 compared to 3.2:1 as at March 31, 2019. The increase in net debt to cash flow ratio is primarily due to a $12,727,000 decrease in cash flow due to a decrease in commodity prices, which was partially offset by an eight percent reduction in net debt from March 31, 2019. In order to further reduce net debt or minimize the effects of decreased cash flows due to the COVID-19 pandemic, the Company has suspended capital spending and its monthly dividend of $0.01 per share starting with the dividend in April 2020. Bonterra has also optimized production costs primarily by voluntarily shutting-in its low economic wells during this period of repressed commodity prices.

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)	**March 31, 2020**	March 31, 2019
Bank debt	**260,919**	296,594
Current liabilities	**57,126**	53,570
Current assets	**(17,357)**	(23,431)
Net debt	**300,688**	326,733
Cash flow from operations	**88,482**	101,209
Net debt to cash flow ratio	**3.4**	3.2

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.

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 March 31, 2020, the Company has the following physical delivery sales contracts in place.

Product	Type of contract	Volume	Term	Contract price
Oil	Fixed price - MSW Stream index	500 BBL/day	Apr 1 to Jun 30, 2020	$70.25 CAD/BBL
Oil	Fixed price - MSW Stream index	500 BBL/day	Apr 1 to Jun 30, 2020	$62.00 CAD/BBL
Oil	Fixed price - MSW Stream index	500 BBL/day	Apr 1 to Jun 30, 2020	$62.91 CAD/BBL
Gas	Fixed Price - AECO[2]	2,500 GJ/day	Apr 1 to Oct 31, 2020	$1.55 CAD/GJ
Gas	Fixed Price - AECO[2]	2,500 GJ/day	Apr 1 to Oct 31, 2020	$1.64 CAD/GJ

(1) "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.

(2) "AECO" refers to Alberta Energy Company; a grade or heating content of natural gas used as benchmark pricing in Alberta, Canada.

Subsequent to March 31, 2020, the Company entered into the following physical delivery sales contract.

Product	Type of contract	Volume	Term	Contract price
Oil	Fixed price - MSW Stream index	500 BBL/day	May 1 to Jun 30, 2020	$18.75 CAD/BBL

Risk Management Contracts

($ 000s)	**March 31, 2020**	March 31, 2019
Risk management contracts		
Realized gain	**1,588**	-
Unrealized gain	**1,796**	-
	3,384	-

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 three months ended March 31, 2020.

Product	Type of contract	Volume	Term	Contract price
Oil	Fixed price - MSW Stream index	500 BBL/day	Jan 1 to Mar 31, 2020	$67.75 CAD/BBL
Oil	Fixed price - MSW Stream index	500 BBL/day	Jan 1 to Mar 31, 2020	$69.60 CAD/BBL
Oil	Fixed price - MSW Stream index	500 BBL/day	May 1 to June 30, 2020	$19.25 CAD/BBL
Oil	Fixed price - MSW Stream index	500 BBL/day	July 1 to Sept 30, 2020	$28.35 CAD/BBL

Corporate Information

Board of Directors
George F. Fink - Chairman
Gary J. Drummond
Randy M. Jarock
Rodger A. Tourigny
Aidan M. Walsh

Officers
George F. Fink, CEO and Chairman of the Board
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
National Bank of Canada
The Toronto Dominion Bank
ATB Financial
Business Development Bank of Canada

Head Office
901, 1015 – 4th Street SW
Calgary, Alberta T2R 1J4
Telephone: 403.262.5307
Fax: 403.265.7488
Email: info@bonterraenergy.com

Website
www.bonterraenergy.com