For the three months ended March 31, 2022

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BONTERRA ENERGY REPORTS FIRST QUARTER 2022 FINANCIAL AND OPERATING RESULTS

HIGHLIGHTS

As at and for the three months ended ($000s except $ per share)		**March 31, 2022**	December 31, 2021	March 31, 2021
FINANCIAL				
Revenue - realized oil and gas sales		**91,542**	79,202	48,794
Funds flow[(1)]		**47,092**	36,488	16,592
Per share - basic		**1.34**	1.07	0.50
Per share - diluted		**1.28**	1.03	0.50
Cash flow from operations		**40,942**	37,868	14,745
Per share - basic		**1.16**	1.11	0.44
Per share - diluted		**1.11**	1.07	0.43
Net earnings (loss)		**10,519**	16,333	(1,684)
Per share - basic		**0.30**	0.48	(0.05)
Per share - diluted		**0.29**	0.46	(0.05)
Capital expenditures		**32,169**	17,636	23,461
Total assets		**965,969**	945,721	748,543
Net debt[(2)]		**260,670**	267,179	328,506
Bank debt		**138,384**	162,945	238,865
Shareholders' equity		**405,148**	392,019	195,393
OPERATIONS				
Light oil	-bbl per day	**7,356**	7,659	6,834
	-average price ($ per bbl)	**110.41**	85.04	61.76
NGLs	-bbl per day	**996**	1,105	1,025
	-average price ($ per bbl)	**63.02**	54.54	35.60
Conventional natural gas	-MCF per day	**29,609**	30,276	24,301
	-average price ($ per MCF)	**4.80**	4.93	3.44
Total barrels of oil equivalent per day (BOE)[(3)]		**13,287**	13,810	11,909

(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) Net debt is not a recognized measure under IFRS. The Company defines net debt as current liabilities less current assets plus long-term subordinated debt and subordinated debentures.

(3) 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) is pleased to present our operating and financial results for the three month period ended March 31, 2022. Readers are encouraged to review in conjunction with the Company's full Q1 2022 report which has been filed on SEDAR and is available on Bonterra's website.

Bonterra benefitted from significantly stronger commodity prices in Q1 2022 as global supply and demand dynamics created a positive tailwind for pricing. As a result, higher netbacks complemented by a successful drilling and completions program have led to improved quarterly sales revenue, funds flow and free funds flow, which could be directed towards further improving Bonterra's leverage profile. These results have strategically positioned the Company to continue pursuing the ongoing profitable development of our high-quality, light oil weighted asset base.

FINANCIAL & OPERATING HIGHLIGHTS

- Production averaged 13,287 BOE per day in Q1 2022, 12 percent higher than Q1 2021, reflecting an active drilling program along with the continued reactivation of wells that were previously shut-in voluntarily due to low commodity prices.

- Revenue from realized oil and gas sales totaled $91.5 million in Q1 2022, an 88 percent increase over Q1 2021 and 16 percent higher than Q4 2021, due primarily to significantly improved commodity prices that drove strong netbacks coupled with a strong production profile.

- Generated funds flow[1] of $47.1 million in the quarter ($1.28 per diluted share), an increase of 184 percent over Q1 2021, and 29 percent higher than the preceding quarter.

- Generated funds flow[1] in excess of capital expenditures ("free funds flow"[1]) of $14.9 million in Q1 2022 which was largely directed to debt repayment.

- Realized average field netbacks[1] of $44.97 per BOE in Q1 2022, representing an increase of 83 percent over Q1 2021 and a 30 percent increase from the preceding quarter, primarily reflecting significantly higher per unit revenue offset by realized losses on risk management contracts, increased per unit royalty expenses and production costs.

- Capital expenditures totaled $32.2 million in Q1 2022, with $25.6 million directed to the drilling of 12 gross (11.8 net) operated wells and the completion, equip and tie-in of 11 gross (10.8 net) operated wells, with six of the completed and equipped wells having been drilled late in 2021. Five (5.0 net) of the remaining wells drilled in Q1 2022 were placed on production in Q2 2022. The balance of the capital was allocated to related infrastructure, recompletions and non-operated capital programs.

- Drilling, completion and equipping costs per well increased 27 percent in Q1 2022 compared to Q1 2021 due largely to supply chain issues, higher inflation rates, and labour shortages as the demand for drilling and completion services increased alongside commodity prices.

- Achieved a 15 percent reduction in quarter-end bank debt to total $138.4 million compared to year-end 2021, largely as a result of the Company's increased funds flow, while net debt[1] decreased by two percent to total $260.7 million. Bonterra's net debt to twelve-month trailing cash flow ratio[1] at quarter-end improved to 2.1 times compared to 2.8 times at year-end 2021.

- Demonstrated the Company's ongoing focus on environmental initiatives by successfully abandoning 51.2 net wells, 12.0 net pipeline segments and decommissioned 2.0 net battery sites with support from the Alberta Site Rehabilitation Program. Throughout 2022, a further 79.8 net wells and associated pipelines that have no further economic potential are targeted for abandonment.

[1] Non-IFRS measure. See advisories later in this report.

Production averaged 13,287 BOE per day for the first three months of 2022, an increase of 12 percent over Q1 2021 despite temporary shut-ins due to gas processing capacity limitations. These limitations are expected to be mitigated going forward by the commissioning of a wholly-owned gas plant, which has a scheduled on-stream date in May 2022. When compared to Q1 2021, the increase in production was the result of our active drilling program which delivered new volumes into a strong commodity price environment along with the reactivation of wells that were previously shut-in due to low commodity prices.

Bonterra invested total capital expenditures of $32.2 million in the first quarter of 2022, representing approximately half of our anticipated annual capital program. We intend to continue investing capital for incremental growth initiatives to support increased free funds flow[1] generation that can be allocated to further reducing outstanding bank debt and balance sheet improvements.

A strong commodity price environment was leveraged throughout the quarter, contributing to the generation of $47.1 million of funds flow[1] and $14.9 million of free funds flow[1] during the period. In Q1 2022, Bonterra realized average oil prices of $110.41 per bbl, average NGL prices of $63.02 per bbl, and average natural gas prices of $4.80 per mcf, representing increases of 79 percent, 77 percent and 40 percent, respectively, compared to the same period in 2021. With stronger prices and higher revenues, the Company's Q1 2022 field and cash netbacks[1] increased 83 percent and 154 percent, respectively, compared to the same period in the prior year, averaging $44.97 per BOE and $39.38 per BOE, respectively.

OUTLOOK

Based on a successful first quarter of 2022, we are pleased to reaffirm our previously announced 2022 production guidance of 13,300 to 13,700 BOE per day[2] based on a capital expenditure budget range of $55 million to $65 million. With a strong first quarter and the remaining 2022 capital program, the Company estimates $100 million of free funds flow[1] for fiscal 2022 (assuming US$70 WTI price for the remaining three quarters), which is expected to drive continued improvement in leverage metrics.

With a stronger financial and operating position combined with a proven track record of operational execution, Bonterra remains focused on generating long-term returns for shareholders while prioritizing economic and environmental sustainability. Today, our stable and high-quality production base is realizing strong oil prices and enhanced netbacks, driving robust funds flow. With our focus on cost control and capital efficiencies, Bonterra plans to continue generating free funds flow that can be directed to ongoing balance sheet strengthening, ultimately supporting our goal of returning capital to shareholders. Bonterra remains committed to employing local services, being a key economic contributor to rural and surrounding communities located within central Alberta, upholding a responsible abandonment and reclamation program, and maintaining rigorous safety measures.

George F. Fink
Chief Executive Officer

[2] 2022 volumes expected to be comprised of 7,320 bbl/d light and medium crude oil, 1,320 bbl/d NGLs and 29,200 mcf/d of conventional natural gas based on a midpoint of 13,500 BOE/d.

Management's Discussion and Analysis

The following report dated May 10, 2022 is a review of the operations and current financial position for the three months ended March 31, 2022 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, 2021 presented under International Financial Reporting Standards (IFRS), as well as Bonterra Annual Information From ("AIF"), each of which is filed on SEDAR at www.sedar.com

Use of Non-IFRS Financial Measures

Throughout this Management's Discussion and Analysis (MD&A) the Company uses the terms "field netback", "cash netback" and "net debt" to analyze operating performance, which are not standardized measures recognized under IFRS and do not have a standardized meaning prescribed by IFRS. These measures are commonly used in the oil and gas industry and are considered informative by management, shareholders and analysts. These measures may differ from those made by other companies and accordingly may not be comparable to such measures as reported by other companies.

The Company calculates cash and field netback by dividing various financial statement items as determined by IFRS by total production for the period on a barrel of oil equivalent basis. The Company calculates net debt as long-term debt plus working capital deficiency (current liabilities less current assets).

Frequently Recurring Terms

Bonterra uses the following frequently recurring terms in this MD&A: "WTI" refers to West Texas Intermediate, a grade of light sweet crude oil used as benchmark pricing in the United States; "MSW Stream Index" or "Edmonton Par" refers to the mixed sweet blend that is the benchmark price for conventionally produced light sweet crude oil in Western Canada; "AECO" is the benchmark price for natural gas in Alberta, Canada; "bbl" refers to barrel; "NGL" refers to Natural gas liquids; "MCF" refers to thousand cubic feet; "MMBTU" refers to million British Thermal Units; "GJ" refers to gigajoule; 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

	2022	2021			
As at and for the periods ended ($ 000s except $ per share)	**Q1**	Q4	Q3	Q2	Q1
Financial					
Revenue - oil and gas sales	**91,542**	79,202	64,457	59,163	48,794
Cash flow from operations	**40,942**	37,868	24,616	18,874	14,745
Per share - basic	**1.16**	1.11	0.73	0.56	0.44
Per share - diluted	**1.11**	1.07	0.71	0.55	0.43
Net earnings (loss)[(1)]	**10,519**	16,333	7,296	157,354	(1,684)
Per share - basic	**0.30**	0.48	0.22	4.68	(0.05)
Per share - diluted	**0.29**	0.46	0.21	4.55	(0.05)
Capital expenditures	**32,169**	17,636	18,578	7,607	23,461
Total assets	**965,969**	945,721	939,835	948,260	748,543
Net debt	**260,670**	267,179	307,729	319,310	328,506
Shareholders' equity	**405,148**	392,019	361,590	353,431	195,393
Operations					
Light oil (barrels per day)	**7,356**	7,659	6,948	7,370	6,834
NGLs (barrels per day)	**996**	1,105	928	996	1,025
Conventional natural gas (MCF per day)	**29,609**	30,276	27,995	26,057	24,301
Total BOE per day	**13,287**	13,810	12,542	12,709	11,909

(1) In Q2 2021, with stronger forward benchmark prices since the impact of COVID-19 beginning in March 2020, the Company recorded a $203,197,000 impairment reversal on its Alberta CGU's oil and gas assets less $47,149,000 deferred income tax expense.

	2020			
As at and for the periods ended ($ 000s except $ per share)	Q4	Q3	Q2	Q1
Financial				
Revenue - oil and gas sales	31,761	29,155	22,171	38,555
Cash flow from (used in) operations	(1,199)	6,370	4,429	22,473
Per share - basic	(0.04)	0.19	0.13	0.67
Per share - diluted	(0.04)	0.19	0.13	0.67
Net loss[(1)]	(11,071)	(5,211)	(5,954)	(284,653)
Per share - basic	(0.33)	(0.16)	(0.18)	(8.53)
Per share - diluted	(0.33)	(0.16)	(0.18)	(8.53)
Capital expenditures	19,064	2,819	104	21,741
Total assets	731,859	722,910	732,462	743,533
Net debt	315,573	295,168	299,445	300,688
Shareholders' equity	196,633	207,325	212,342	218,211
Operations				
Light oil (barrels per day)	5,371	5,355	5,553	7,058
NGLs (barrels per day)	960	1,064	1,104	999
Conventional natural gas (MCF per day)	22,560	21,510	21,142	23,864
Total BOE per day	10,091	10,004	10,181	12,034

(1) In the first quarter of 2020 the Company recorded a $331,678,000 impairment provision less a $54,107,000 deferred income tax recovery related to its Alberta CGU's oil and gas assets due to the impact of COVID-19 on forward benchmark prices for crude oil.

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.

	Q1-2022	Q4-2021	Q3-2021	Q2-2021	Q1-2021	Q4-2020	Q3-2020	Q2-2020
Crude oil								
WTI (U.S.$/bbl)	**94.29**	77.19	70.56	66.07	57.84	42.66	40.93	27.85
WTI to MSW Stream Index								
Differential (U.S.$/bbl)[(1)]	**(2.96)**	(3.10)	(4.08)	(3.11)	(5.24)	(4.07)	(3.51)	(6.14)
Foreign exchange								
U.S.$ to Cdn$	**1.2662**	1.2601	1.2602	1.2280	1.2663	1.3031	1.3316	1.3860
Bonterra average realized								
oil price (Cdn$/bbl)	**110.41**	85.04	78.42	71.49	61.76	47.16	45.73	33.31
Natural gas								
AECO (Cdn$/mcf)	**4.72**	4.63	3.58	3.08	3.14	2.63	2.23	1.98
Bonterra average realized								
gas price (Cdn$/mcf)	**4.80**	4.93	3.94	3.37	3.44	3.02	2.40	2.14

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

Bonterra's average realized commodity prices can be impacted by numerous events or factors. Volatility in WTI benchmark pricing has been significant since the onset of COVID-19 in early 2020. WTI benchmark prices for the first quarter of 2022 increased by nearly $17 USD per barrel compared to the fourth quarter of 2021. The increase was driven by continuing improvements in real demand, ongoing supply discipline from both OPEC+ and US shale producers, and geopolitical risk attributed to Russia's invasion of Ukraine. These factors have led to significant destocking of global crude and product inventories, which continues to support a higher price environment. Uncertainty still remains around prolonged COVID-19 related market impacts, the impact of sanctions on Russia and supply and demand levels through 2022, and as such, it is likely that pricing volatility will continue.

In addition to crude prices, Canadian crude oil differentials can also impact Bonterra's financial performance. Differentials continued to narrow in the first quarter of 2022 compared to the previous quarter. Strong North American refining demand and the startup in late 2021 of the long-anticipated Enbridge Line 3 expansion project both contributed to improved Canadian differentials in the first quarter. Longer term, the Trans Mountain Expansion is expected to increase Canada's export capabilities, and similar to Line 3, is anticipated to have a positive effect on the movement and pricing of Canadian barrels. Ongoing concern around the outcome of Enbridge's Line 5 crossing into Michigan is a factor that could have a negative effect on the pricing differential between WTI and MSW or Edmonton Par pricing.

Low natural gas inventories continue to persist around the globe and continue to keep many natural gas commodity benchmark prices at or near multi-year highs, including the AECO benchmark price which was up $0.09 per mcf in the first quarter of 2022 relative to the previous quarter and $1.14 per mcf from Q3 2021. Forecast natural gas pricing in 2022 continues to reflect an improved AECO market. Planned facility additions for the NGTL system in the near term and progress by LNG Canada for the Kitimat liquefied natural gas export facility over the longer term may continue to support and improve market sentiment towards western Canadian-based natural gas producers.

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 2022 [1]			
Impact on cash flow	Change ($)	$000s	$ per share[2]
Realized crude oil price ($/bbl)	1.00	2,406	0.07
Realized natural gas price ($/mcf)	0.10	1,021	0.03
U.S.$ to Canadian $ exchange rate	0.01	1,925	0.05

(1) This analysis uses current royalty rates, annualized estimated average production of 13,500 BOE per day and no changes in working capital.
(2) Based on annualized basic weighted average shares outstanding of 35,501,671.

Business Overview, Strategy and Key Performance Drivers

Bonterra believes that the Company has established a strong position to continue pursuing profitable development of its high-quality, light oil weighted asset base and remains focused on maximizing the Company's financial position, reducing net debt and creating long term value. Into 2022, global supply and demand dynamics for crude oil and natural gas, due largely to lack of capital investment in oil and gas, along with supply chain issues related to the COVID-19 pandemic and the significant geopolitical events in Europe, have all led to higher commodity prices.

The Company's production of 13,287 BOE per day in Q1 2022, was an increase of 1,378 BOE per day, or twelve percent compared to the same period in 2021. Quarter-over-quarter, Bonterra's production decreased by 523 BOE per day which primarily related to approximately 1,000 BOE per day of restricted production in Q1 2022 due to gas processing capacity limitations. These limitations will be mitigated by the commissioning of a wholly owned gas plant with a scheduled on-stream date in May 2022. With some of the gas handling issues soon to be resolved, the Company expects annual production to be within the previously announced guidance range of 13,300 to 13,700 BOE per day.

In 2022, the Company's per well drilling, completion and equipping costs increased 27 percent compared to the same period last year due to supply chain issues, labour shortage as the demand for well drilling and completion services increased along with higher commodity prices and increased inflation rates. The Company has spent approximately 50 percent of its annual capital budget, which included the majority of its planned infrastructure budget to address gas handling issues. Bonterra invested total capital expenditures of $32.2 million in the first quarter of 2022, which is approximately half of its annual capital budget. Of the total capital invested, $25.6 million was directed to the drilling of 12 gross (11.8 net) operated wells and the completing, equipping, tying-in and placing on production of 11 gross (10.8 net) operated wells, with six of the completed and equipped wells having been drilled late in 2021. Approximately $6.6 million of the capital program was directed to related infrastructure, recompletions and non-operated capital programs. The five gross (5.0 net) operated wells drilled in the first quarter of 2022 were completed, equipped and tied-in in the second quarter of 2022.

Bonterra successfully abandoned 51.2 net wells, 12.0 net pipeline segments and decommissioned 2.0 net battery sites during Q1 2022 with support from the Alberta Site Rehabilitation Program ("SRP"). As the Company continues to execute its abandonment program through 2022, a further 79.8 net wells and associated pipelines that have no deemed future economic potential are forecast to be abandoned. Bonterra continuously reviews its inactive well inventory for future potential to determine if a well bore should be reactivated, repurposed, or abandoned.

To further support stability, and as part of Bonterra's ongoing efforts to diversify commodity pricing and to protect future cash flows, the Company has executed physical delivery sales and risk management contracts to the end of Q1 2023 on approximately 30 percent of its expected crude oil and natural gas production. For the next twelve months, Bonterra has secured a WTI price between $48.00 USD to $100.00 USD per bbl on 2,398 bbls per day, with a WTI to Edmonton par differential average of approximately $5.82 on 1,226 bbls per day. In addition, the Company has secured natural gas prices between $2.00 to $5.00 on 11,055 GJ per day for the next twelve months.

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 production 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, 2022		December 31, 2021		March 31, 2021
	Gross[(1)]	**Net[(2)]**	Gross[(1)]	Net[(2)]	Gross[(1)]	Net[(2)]
Crude oil horizontal-operated	**12**	**11.8**	8	8.0	13	12.9
Crude oil horizontal-non-operated	**6**	**0.7**	2	0.4	-	-
Total	**18**	**12.5**	10	8.4	13	12.9
Success rate		**100%**		100%		100%

(1) "Gross" wells are the number of wells in which Bonterra has a working interest.
(2) "Net" wells are the aggregate number of wells obtained by multiplying each gross well by Bonterra's percentage of working interest.

During the first quarter of 2022, the Company drilled 12 gross (11.8 net) operated wells and completed, tied-in and placed on production 11 gross (10.8 net) operated wells. An additional five gross (5.0 net) operated wells drilled in the first quarter of 2022 were completed, equipped and tied-in in the second quarter of 2022.

Production

	Three months ended		
	March 31, 2022	December 31, 2021	March 31, 2021
Crude oil (barrels per day)	**7,356**	7,659	6,834
NGLs (barrels per day)	**996**	1,105	1,025
Natural gas (MCF per day)	**29,609**	30,276	24,301
Average BOE per day	**13,287**	13,810	11,909

The Company averaged 13,287 BOE per day of production in the first three months of 2022, compared to 11,909 BOE per day for Q1 2021, an increase of 1,378 BOE per day or 12 percent. The increase in production is largely due to the Company's increased capital drilling program and the reactivation of down wells due to increased commodity prices.

Quarter-over-quarter production decreased primarily due to approximately 1,000 BOE per day of shut-in production from gas processing capacity limitations. The gas processing capacity issue will be mitigated going forward by the commissioning of the Company's wholly owned gas plant that is scheduled to be on-stream in May 2022.

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, 2022**	December 31, 2021	March 31, 2021
Production volumes (BOE)	**1,195,873**	1,270,488	1,071,835
Gross production revenue	**76.55**	62.34	45.52
Risk management contracts realized gain (loss)	**(5.43)**	(5.24)	(1.83)
Royalties	**(8.91)**	(6.94)	(3.53)
Production costs	**(17.24)**	(15.70)	(15.60)
Field netback	**44.97**	34.46	24.56
General and administrative	**(2.43)**	(2.64)	(2.68)
Interest and other	**(3.16)**	(3.10)	(6.40)
Cash netback	**39.38**	28.72	15.48

Cash netbacks increased in the first quarter of 2022 compared to the same period of 2021 primarily due to higher realized commodity prices and lower interest expense from reduced debt. This was partially offset by increased royalties, production costs and realized losses on risk management contracts. Quarter-over-quarter cash netbacks increased primarily due to further increases in commodity prices offset by an increase in royalties and production costs.

Oil and Gas Sales

	Three months ended		
	March 31, 2022	December 31, 2021	March 31, 2021
Revenue - oil and gas sales ($ 000s)			
Light oil	**73,096**	59,924	37,986
NGL	**5,652**	5,543	3,285
Conventional natural gas	**12,794**	13,735	7,523
	91,542	79,202	48,794
Average realized prices:			
Light oil ($ per barrel)	**110.41**	85.04	61.76
NGL ($ per barrel)	**63.02**	54.54	35.60
Conventional natural gas ($ per MCF)	**4.80**	4.93	3.44
Average ($ per BOE)	**76.55**	62.34	45.52
Average BOE per day	**13,287**	13,810	11,909

Revenue from oil and gas sales in the first three months of 2022 increased by $42.7 million, or 88 percent, compared to the same period in 2021. This increase was primarily driven by a 79 percent increase in Bonterra's realized crude oil prices and a 12 percent increase in average production volumes. Quarter-over-quarter, oil and gas sales increased as the Company benefited from further increases in crude oil and NGL prices while natural gas prices also decreased by three percent.

Bonterra's product split on a revenue basis was weighted approximately 86 percent to crude oil and NGLs during the first quarter of 2022.

Royalties

	Three months ended		
($ 000s)	**March 31, 2022**	December 31, 2021	March 31, 2021
Crown royalties	**6,690**	5,716	1,862
Freehold, gross overriding and other royalties	**3,970**	3,099	1,924
Total royalties	**10,660**	8,815	3,786
Crown royalties - percentage of revenue	**7.3**	7.2	3.8
Freehold, gross overriding and other royalties - percentage of revenue	**4.3**	3.9	3.9
Royalties - percentage of revenue	**11.6**	11.1	7.7
Royalties $ per BOE	**8.91**	6.94	3.53

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 three-month period ended March 31, 2022 increased by $1.97 per BOE and $5.38 per BOE compared to Q4 2021 and Q1 2021, respectively. The increase from both periods was primarily the result of commodity price improvements.

Production Costs

	Three months ended		
($ 000s except $ per BOE)	**March 31, 2022**	December 31, 2021	March 31, 2021
Production costs	**20,615**	19,951	16,716
$ per BOE	**17.24**	15.70	15.60

Production costs in Q1 2022 increased compared to Q1 2021 primarily due to increased production and maintenance costs with increased well reactivations from the prior year as the Company expanded the number of service rigs to four compared to two in the first quarter of 2021. In addition, road and lease maintenance increased primarily from road clearing costs as a result of above average snow falls and high winds in February 2022. On a BOE basis, production costs also increased due to maintaining the same level of activity and having shut-in production from gas handling issues. With the new wholly owned gas plant coming on-line in May 2022, the Company anticipates improvements in per BOE production costs in future periods, offset by general inflation pressures and escalating carbon taxes.

Production costs in Q1 2022 also increased from Q4 2021. The quarter-over-quarter increase was primarily due to higher maintenance costs and a levy reduction in the fourth quarter of 2021 related to the Company's active abandonment program.

Other Income

	Three months ended		
	March 31,	December 31,	March 31,
($ 000s)	**2022**	2021	2021
Investment income	**14**	38	5
Administrative income	**104**	195	63
Gain on sale of property	**-**	225	-
Government grant in-kind	**675**	1,009	2,083
Deferred consideration	**295**	364	286
Realized gain (loss) on risk management contracts	**(6,494)**	(6,657)	(1,966)
Unrealized gain (loss) on risk management contracts	**(9,110)**	7,189	(4,850)
	(14,516)	2,363	(4,379)

Deferred consideration relates to a deferred gain on the sale of a two percent overriding royalty interest, which is recognized into revenue using the same unit-of-production method as the encumbered property, plant, and equipment assets.

The market value and carrying value of the investments held by the Company on March 31, 2022 was $1,436,000 (March 31, 2021 - $385,000). There were no dispositions during the period ended March 31, 2022 or March 31, 2021. Dispositions that result in a gain or loss on sale are recorded as an equity transfer between accumulated other comprehensive income and retained earnings.

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

The Government of Alberta's SRP provides grant funding through service providers to abandon or remediate oil and gas sites. The Company derecognized approximately $0.7 million of asset retirement obligations as an in-kind grant in 2021 (March 31, 2021 - $2.1 million). The benefit of the in-kind grant is recognized through other income.

To minimize commodity price risk on crude oil and natural gas sales, Bonterra has entered into financial derivatives. The financial derivatives outstanding are for the period from April 1, 2022 to March 31, 2023 and are for a total of 556,900 barrels of light crude oil (approximately 1,526 barrels of oil per day for the next twelve months) at fixed WTI prices ranging from $48.00 USD to $100.00 USD per barrel, with a fixed differential from WTI to Edmonton Par prices for 447,500 barrels of oil (approximately 1,226 barrels of oil per day) at prices ranging from approximately $5.32 to $6.55 per barrel. These contracts are not considered normal sales contracts and are recorded at fair value.

General and Administrative ("G&A") Expense

($ 000s except $ per BOE)	**March 31, 2022**	Three months ended December 31, 2021	March 31, 2021
Employee compensation	**1,695**	2,461	999
Office and administrative - recurring	**1,212**	891	930
Total G&A recurring	**2,907**	3,352	1,929
Office and administrative - nonrecurring	**-**	-	946
Total G&A	**2,907**	3,352	2,875
$ per BOE recurring	**2.43**	2.64	1.80
$ per BOE nonrecurring	**-**	-	0.88
$ per BOE total	**2.43**	2.64	2.68

Employee compensation expense increased by $0.7 million for Q1 2022 compared to Q1 2021. The increase is primarily due to a larger bonus accrual due to increased net earnings before taxes. Quarter-over-quarter, employee compensation decreased due to the Company's 2021 bonus accrual being recorded in the fourth quarter of 2021.

Nonrecurring office and administrative costs reflect expenditures related to successfully defending an unsolicited hostile bid for the Company that expired March 29, 2021.

Finance Costs

($ 000s except $ per BOE)	**March 31, 2022**	Three months ended December 31, 2021	March 31, 2021
Interest on bank debt and subordinated debt	**2,564**	3,063	6,656
Other interest	**1,328**	1,109	271
Interest expense	**3,892**	4,172	6,927
$ per BOE	**3.25**	3.28	6.46
Accretion of decommissioning liabilities	**784**	829	774
Accretion on subordinated debentures	**517**	410	-
Total finance costs	**5,193**	5,411	7,701

Interest on bank debt decreased in Q1 2022 compared to 2021 due to a decrease in interest rates stemming from the reduction in the Company's net debt to earnings before income taxes and depletion and amortization (or "EBITDA" as defined by the Company's bank facility) ratio. With reduced debt and increased cash flow, the Company was able to remove the term portion of the facility on its bank debt which had a less favourable interest rate grid. Bank debt 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.

Subordinated debt interest relates to the Business Development Bank of Canada ("BDC") second lien non-revolving four-year term loan (the "BDC Loan"). The Company drew $45 million on the BDC Loan and the first year of interest was added to the principal for a total owing of $47 million. The BDC Loan bears interest at six percent and increases by one percent each year on the anniversary date of November 13. For more information about the subordinated debt, refer to Note 5 of the March 31, 2022 condensed financial statements.

In the fourth quarter of 2021, $19.5 million of amounts due to a related party and a subordinated promissory note were exchanged for senior unsecured subordinated debentures. In addition, an additional $39.5 million of these debentures were issued for total proceeds of $59 million. As at March 31, 2022, the Company had a total of 59,000 senior unsecured subordinated debenture units outstanding. Each Unit is comprised of: (i) one senior unsecured debenture with a par value of $1,000 per note and bearing interest at 9.0 percent per annum, which are payable semi-annually; and (ii) 56 common share purchase warrants of Bonterra ("Warrants"). The debentures mature on October 20, 2025 and all or a portion of the principal amount outstanding can be repaid without penalty after October 20, 2024, however, all interest owing to the maturity date must be paid.

The unsecured subordinated debentures were determined to be a compound instrument with a debt and equity component. The fair value of the debt component of the $59,000,000 in debentures were determined on issuance to be 15.6 percent using the effective interest rate method, by discounting future payments of interest and principal with the residual value allocated to Warrants and issue costs. The value of the debt will accrete up to the principal balance at maturity. For more information about unsecured subordinated debentures, please see Note 6 of the March 31, 2022 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 $1,429,000.

Share-Option Compensation

	Three months ended		
	March 31,	December 31,	March 31,
($ 000s)	**2022**	2021	2021
Share-option compensation	**274**	259	293

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 $19,000 in Q1 2022 compared to Q1 2021.

Based on the outstanding options as of March 31, 2022, the Company has an unamortized expense of $3,054,000, of which $1,248,000 will be amortized for the remainder of 2022; $1,227,000 in 2023; $524,000 in 2024 and $55,000 thereafter. For more information about options issued and outstanding, refer to Note 8 of the March 31, 2022 condensed financial statements.

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

	Three months ended		
	March 31,	December 31,	March 31,
($ 000s)	**2022**	2021	2021
Depletion and depreciation	**22,534**	22,567	15,312

The provision for depletion and depreciation ("D&D") increased in Q1 2022 compared to Q1 2021 primarily due to increased capital spending, higher production volumes and a greater carrying value to deplete from a $203.2 million impairment reversal on Bonterra's Alberta CGU PP&E in the second quarter of 2021.

Taxes

The Company recorded a deferred income tax expense of $4.3 million in Q1 2022 (Q1 2021 – $0.6 million recovery). The increase in deferred income tax expense for Q1 2022 compared to Q1 2021 was primarily due to an increase in earnings before income taxes.

For additional information regarding income taxes, see Note 7 of the March 31, 2022 condensed financial statements.

Net Earnings (Loss)

($ 000s except $ per share)	March 31, 2022	Three months ended December 31, 2021	March 31, 2021
Net earnings (loss)	**10,519**	16,333	(1,684)
$ per share - basic	**0.30**	0.48	(0.05)
$ per share - diluted	**0.29**	0.46	(0.05)

Net earnings for the Q1 2022 increased by $12.2 million compared to Q1 2021. The increase in net earnings was primarily attributed to an increase in production and commodity prices. Net earnings was partially offset by an increase in loss on risk management contracts, royalties, production costs and depletion and depreciation.

The quarter-over-quarter decrease in net earnings is primarily due to an increase in loss on risk management contracts, which was partially offset by increased revenue from higher realized crude oil prices.

Other Comprehensive Income (Loss)

Other comprehensive income for Q1 2022 consists of an unrealized gain before tax on investments (including investment in a related party) of $545,000 relating to an increase in the investments' fair value (March 31, 2021 – $90,000). Realized gains result in decreases to accumulated other comprehensive income as these gains are transferred to retained earnings. Other comprehensive income varies from net earnings by unrealized changes in the fair value of Bonterra's holdings of investments, including the investment in a related party, net of tax.

Cash Flow From Operations

($ 000s except $ per share)	March 31, 2022	Three months ended December 31, 2021	March 31, 2021
Cash flow from operations	**40,942**	37,868	14,745
$ per share - basic	**1.16**	1.11	0.44
$ per share - diluted	**1.11**	1.07	0.43

In Q1 2022, cash flow from operations increased by $26.2 million compared to the same period in 2021. This was primarily due to an increase in commodity prices and production volumes and a decrease in interest expense, which was partially offset by an increase in royalties, production costs and higher realized risk management contract losses.

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

Related Party Transaction

Bonterra holds 1,034,523 (December 31, 2021 – 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, 2022 of $1,179,000 (December 31, 2021 – $703,000).

Liquidity and Capital Resources

Net Debt to Cash Flow from Operations

Bonterra continues to focus on reducing overall debt while managing its cash flow and capital expenditures. The Company's net debt to twelve-month trailing cash flow ratio as of March 31, 2022 was 2.1 to 1 times (versus 2.8 to 1 times at December 31, 2021). The decreased net debt to cash flow ratio is the result of an increase in the Company's twelve-month trailing cash flow that is primarily due to rising commodity prices. Compared to the first three months of 2021, average net debt for the first three months of 2022 compared to 2021 decreased by $35.8 million due to a 178 percent increase in cash flow from higher commodity prices and production volumes, and a $7 million flow through share issuance. In addition, the fair value of the warrants of $9.8 million and issuance costs of $2.2 million reduced the carrying value of the subordinated debentures issued in Q4 2021, which reduced net debt. 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, 2022**	December 31, 2021	March 31, 2021
Working capital deficiency	**164,198**	172,552	282,908
Subordinated debt and subordinated debentures	**96,472**	94,627	45,598
Net Debt	**260,670**	267,179	328,506

Net debt is a combination of subordinated debt, subordinated debentures and working capital. As of March 31, 2022, the Company's bank facility has a maturity date of November 30, 2022 and is recorded as a current liability. Bonterra actively monitors its credit availability and working capital to ensure that it has sufficient available funds to meet its financial requirements as they come due. Any of these events present risks that could affect Bonterra's ability to fund ongoing operations. If required, Bonterra will also consider short-term or long-term financing alternatives in order to meet its future liabilities.

Net debt at March 31, 2022 decreased by $67.8 million compared to March 31, 2021 primarily due to increased cash flow resulting from rising commodity prices and higher production volumes. With commodity prices remaining strong to date in 2022, the Company intends to continue its focus on reducing net debt.

Working capital is calculated as current assets less current liabilities. Included in the working capital deficiency as at March 31, 2022 is $138.4 million of bank debt.

Financial Risk Management

Bonterra is exposed to market risk for the oil and gas produced by the Company. External factors beyond the Company's control may affect the marketability of oil and gas produced. Oil prices are affected by worldwide supply and demand fundamentals and access to market, while natural gas prices are largely affected by North American supply and demand fundamentals. In order to manage commodity risk, the Company executed physical delivery sales contracts in Q1 2022 which are considered normal sales contracts and are not recorded at fair value in the financial statements, and also executed risk management contracts which are not considered normal sales contracts and are recorded at fair value. The Company has contracts in place on approximately 30 percent of its estimated oil and gas production for the next twelve months. The Company relies on its cash flow, access to equity markets and bank financing to support its operations and capital program. Bonterra uses these futures contracts to hedge its exposure to the potential adverse impact of commodity price volatility and provide a measure of stability to Bonterra's capital development program. For more information on physical delivery and risk management contracts in place, see Note 11 of the March 31, 2022 condensed financial statements.

Capital Expenditures

During the three months ended March 31, 2022, the Company incurred capital expenditures of $32.2 million (March 31, 2021 - $23.5 million). Of the total capital invested, $25.6 million was directed to the drilling of 12 gross (11.8 net) wells and the completion, equip and tie-in of 11 gross (10.8 net) wells, of which six of the completed and equipped wells were drilled in 2021. Five of the 12 wells drilled in Q1 2022 were placed on production in early Q2 2022. An additional $6.6 million was spent primarily on related infrastructure and recompletions.

Decommissioning Liabilities

Bonterra participates in the province of Alberta's Voluntary Closure Target program ("VCT") to reduce abandonment and reclamation costs and liabilities. This program provides numerous incentives to efficiently manage decommissioning liabilities that reduce overall cost. The Company's mandatory target under the VCT program for 2022 is $3.7 million of which $1.0 million has been spent in the first quarter excluding any Alberta SRP funding. The VCT program also sets an upper limit voluntary spend target that comes with additional incentives. The voluntary target under the VCT is set at $3.9 million for 2022 and Bonterra expects to meet or exceed this amount.

Bank Debt

Bank debt represents the outstanding amounts drawn on the Company's bank facility. On October 20, 2021 the Company entered into its Fourth Amended and Restated Credit Agreement ("ARCA"). As at March 31, 2022, the ARCA represents a total bank facility of $200.0 million, comprised of a $175.0 million syndicated revolving credit facility and a $25.0 million non-syndicated revolving facility. The amount drawn under the total bank facility at March 31, 2022 was $138.4 million (December 31, 2021 - $162.9 million). The amounts borrowed under the total bank facility bear interest at a floating rate based on the applicable Canadian prime rate or Banker's Acceptance rate, plus between 2.00 percent and 7.00 percent, depending on the type of borrowing and the Company's consolidated debt to EBITDA ratio. EBITDA is defined as net income for the period excluding finance costs, provision for current and deferred taxes, depletion and depreciation, share-option compensation, gain or loss on sale of assets and impairment of assets. The terms of the total revolving bank facility provide that the loan facility is revolving to May 31, 2022, with a maturity date of November 30, 2022. The available lending limit of the bank facility is scheduled to be reviewed before May 31, 2022.

Under the ARCA, the Company is restricted from making any payment of dividend distributions. In addition, the Company is also limited to expenditures on an annual basis which cannot:

- exceed 110 percent or be less than 90 percent of the forecasted decommissioning expenditures settled; and
- exceed 110 percent of the forecasted capital expenses.

As at March 31, 2022, Bonterra classified its bank debt as a current liability and had a working capital deficiency. The Company was in compliance with all financial covenants on its total bank facility as at March 31, 2022.

After examining the economic factors that are causing the liquidity risk facing the Company, the judgment applied to these factors, and the various initiatives that the Company has and will undertake to strengthen its financial position, Bonterra believes it will have sufficient liquidity to support its ongoing operations and meet its current financial obligations as they come due for at least the next twelve months. There can be no assurance that the next bank review will not result in a material reduction in the borrowing base, and that the necessary funds will be available to meet its obligations as they become due, subject to other alternative sources of financing.

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 4 of the March 31, 2022 condensed financial statements.

The amount available for borrowing under the bank facility is reduced by outstanding letters of credit. Letters of credit totaling $1.4 million were issued as at March 31, 2022 (December 31, 2021 - $1.4 million). Security for the bank facility consists of various floating demand debentures totaling $750 million (December 31, 2021 - $750 million) over all of the Company's assets and a general security agreement with first ranking over all personal and real property.

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, December 31, 2021	**35,000,952**	**772,781**
Issued pursuant to the Company's share option plan	**491,665**	**653**
Transfer from contributed surplus to share capital		**414**
Issued pursuant to the exercise of warrants	**155,000**	**1,201**
Transfer from warrants to share capital		**341**
Balance, March 31, 2022	**35,647,617**	**775,390**

Total of 3,149,000 Warrants are outstanding as at March 31, 2022, entitling the holder to purchase one Common Share of Bonterra for each Warrant at a price of $7.75, until October 20, 2025.

Subsequent to the quarter, 296,000 warrants were exercised for total proceeds of $2.3 million.

The Company provides a stock option plan for its directors, officers and employees. Under the plan, the Company may grant options for up to 3,564,762 (December 31, 2021 – 3,500,095) common shares. The exercise price of each option granted will not be lower than the market price of the common shares on the date of grant and the option's maximum term is five years.

For additional information regarding warrants and options outstanding, see Note 8 of the March 31, 2022 condensed financial statements.

Quarterly Financial Information

	2022		2021		
For the periods ended ($ 000s except $ per share)	**Q1**	Q4	Q3	Q2	Q1
Revenue - oil and gas sales	**91,542**	79,202	64,457	59,163	48,794
Cash flow from operations	**40,942**	37,868	24,616	18,874	14,745
Net earnings (loss)	**10,519**	16,333	7,296	157,354	(1,684)
Per share - basic	**0.30**	0.48	0.22	4.68	(0.05)
Per share - diluted	**0.29**	0.46	0.21	4.55	(0.05)

		2020		
For the periods ended ($ 000s except $ per share)	Q4	Q3	Q2	Q1
Revenue - oil and gas sales	31,761	29,155	22,171	38,555
Cash flow from operations	(1,199)	6,370	4,429	22,473
Net earnings (loss)	(11,071)	(5,211)	(5,954)	(284,653)
Per share - basic	(0.33)	(0.16)	(0.18)	(8.53)
Per share - diluted	(0.33)	(0.16)	(0.18)	(8.53)

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 2020, the Company's net earnings and cash flow significantly decreased mainly due to the effect of the COVID-19 pandemic on crude oil demand. With the utilization of the BDC funding for the Company's capital program and well reactivation costs in the fourth quarter of 2020, the Company increased production, net earnings and cash flow from operations in the quarters subsequent to December 31, 2020. Net loss for Q1 2020 and net earnings in Q2 2021 were significantly higher than other quarters due to an impairment provision and reversal on the Company's Alberta cash generating unit. More recent quarters' results have also been positively affected by the rise in oil and natural gas commodity prices primarily due to current geopolitical events.

Contractual Obligations and Commitments

At March 31, 2022, Bonterra's total contractual obligations and commitments were $332,006,000. These include obligations and commitments in place as of December 31, 2021, changes in accrued interest in the period, as well as additional firm service commitments entered into during the three months ended March 31, 2022. For more information, refer to Note 12 "Commitments and Financial Liabilities" of the March 31, 2022 condensed financial statements.

Off-Balance Sheet Financing

Bonterra does not have any guarantees or off-balance sheet arrangements that have been excluded from the annual statement of financial position or balance sheet other than commitments disclosed in Note 12 of the March 31, 2022 condensed financial statements.

Critical Accounting Estimates

There have been no changes to the Company's critical accounting policies and estimates as of the period ended in the financial statements.

Assessment of Business Risk

Bonterra's exploration and production activities are concentrated in the Western Canadian Sedimentary Basin, where activity is highly competitive and includes a variety of different sized companies. Bonterra is subject to a number of risks that are also common to other organizations involved in the oil and gas industry. Such risks include finding and developing oil and gas reserves at economic costs, estimating amounts of recoverable reserves, production of oil and gas in commercial quantities, marketability of oil and gas produced, fluctuations in commodity prices, stock market volatility, debt service which may limit market price of shares, financial and liquidity risks and environmental and safety risks.

The Company mitigates its risk related to producing hydrocarbons through the utilization of current technology and information systems. In addition, Bonterra strives to operate the majority of its properties, thereby maintaining operational control where possible.

The Company's business, operations and financial condition has been significantly adversely affected by COVID-19. Actions taken to reduce the spread of COVID-19 have resulted in volatility and disruptions in regular business operations, supply chains and financial markets. COVID-19 also poses a risk on the financial capacity of Bonterra's contract counterparties and potentially their ability to perform contractual obligations. These difficulties have been exacerbated in Canada by political and other actions resulting in uncertainty surrounding regulatory, tax, royalty changes and environmental regulation.

Additional information regarding risk factors including, but not limited to, business risks is available in our Annual Information Form for the year ended December 31, 2021, which can be accessed on our website www.bonterraenergy.com or on SEDAR at www.sedar.com.

Environmental Risk

General Risks

Oil and gas exploration and production can involve environmental risks such as litigation, physical and regulatory risks. Physical risks include the pollution of the environment, climate change and destruction of natural habitat, as well as safety risks such as personal injury. The Company conducts its operations and ensures to protect the environment, its various stakeholders, and the general public. Bonterra maintains current insurance coverage for comprehensive and general liability as well as limited pollution liability. The amount and terms of this insurance are reviewed on an ongoing basis and adjusted as necessary to reflect current corporate requirements, availability, as well as industry standards and government regulations. Without such insurance, and if the Company becomes subject to environmental liabilities, the payment of such liabilities could reduce or eliminate its available funds or could exceed the funds the Company has available and result in financial distress.

Climate Change Risks

Our exploration and production facilities and other operations and activities emit greenhouse gasses ("GHG") which require us to comply with federal and/or provincial GHG emissions legislation. Climate change policy is evolving at regional, national and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place to prevent climate change or mitigate our effects. The direct or indirect costs of compliance with GHG-related regulations may have a material adverse effect on our business, financial condition, results of operations and prospects. Some of our significant facilities may ultimately be subject to future regional, provincial and/or federal climate change regulations to manage GHG emissions. In addition, climate change has been linked to long-term shifts in climate patterns and extreme weather conditions both of which pose the risk of causing operational difficulties.

Additional information regarding risk factors including, but not limited to, environmental risks is available in our Annual Information Form for the year ended December 31, 2021, which can be accessed on our website www.bonterraenergy.com or on SEDAR at www.sedar.com.

Forward-Looking Information

Certain statements contained in this MD&A include statements which contain words such as “anticipate”, “could”, “should”, “expect”, “seek”, “may”, “intend”, “likely”, “will”, “believe” and similar expressions, relating to matters that are not historical facts, and such statements of our beliefs, intentions and expectations about development, results and events which will or may occur in the future, constitute “forward-looking information” within the meaning of applicable Canadian securities legislation and are based on certain assumptions and analysis made by us derived from our experience and perceptions. Forward-looking information in this MD&A includes, but is not limited to: 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; climate change risks; cyber security; impact of COVID-19; 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 or maintain its syndicated bank facility; 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, 2022 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, 2022.

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

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, 2022	December 31, 2021
Assets			
Current			
Accounts receivable		**36,774**	24,215
Crude oil inventory		**1,025**	988
Prepaid expenses		**6,203**	5,922
Investments		**257**	188
		44,259	31,313
Investment in related party		**1,179**	703
Exploration and evaluation assets		**2,000**	1,994
Property, plant and equipment	3	**909,670**	902,850
Investment tax credit receivable		**8,861**	8,861
		965,969	945,721
Liabilities			
Current			
Accounts payable and accrued liabilities		**55,246**	35,194
Risk management contract		**13,677**	4,567
Bank debt	4	**138,384**	162,945
Deferred consideration		**1,150**	1,159
		208,457	203,865
Subordinated debt	5	**47,268**	47,268
Subordinated debentures	6	**49,204**	47,359
Deferred consideration		**9,802**	10,089
Decommissioning liabilities		**132,042**	135,815
Deferred tax liability	7	**114,048**	109,306
		560,821	553,702
Shareholders' equity			
Share capital	8	**775,390**	772,781
Contributed surplus		**31,459**	31,599
Warrants	8	**6,924**	7,265
Accumulated other comprehensive income (loss)		**261**	(221)
Deficit		**(408,886)**	(419,405)
		405,148	392,019
		965,969	945,721

Commitments and contingencies	12
Subsequent events	8, 11

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	**2022**	2021
Revenue			
Oil and gas sales, net of royalties	9	**80,882**	45,008
Other income	13	**793**	2,151
Deferred consideration		**295**	286
Loss on risk management contracts	11	**(15,604)**	(6,816)
		66,366	40,629
Expenses			
Production		**20,615**	16,716
Office and administration		**1,212**	1,876
Employee compensation	13	**1,695**	999
Finance costs	10	**5,193**	7,701
Share-option compensation		**274**	293
Depletion and depreciation	3	**22,534**	15,312
		51,523	42,897
Earnings (loss) before income taxes		**14,843**	(2,268)
Taxes			
Deferred income tax expense (recovery)	7	**4,324**	(584)
		4,324	(584)
Net earnings (loss) for the period		**10,519**	(1,684)
Other comprehensive income (loss)			
Unrealized gain on investments		**545**	90
Deferred taxes on unrealized gain on investments		**(63)**	(10)
Other comprehensive income (loss) for the period		**482**	80
Total comprehensive income (loss) for the period		**11,001**	(1,604)
Net earnings (loss) per share - basic	8	**0.30**	(0.05)
Net earnings (loss) per share - diluted	8	**0.29**	(0.05)
Comprehensive income (loss) per share - basic	8	**0.31**	(0.05)
Comprehensive income (loss) per share - diluted	8	**0.30**	(0.05)

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF CASH FLOW

For the three months ended March 31 (unaudited)

($ 000s)	Note	**2022**	2021
Operating activities			
Net earnings (loss)		**10,519**	(1,684)
Items not affecting cash			
Deferred income taxes expense (recovery)		**4,324**	(584)
Share-option compensation		**274**	293
Investment income		**(14)**	(6)
Finance costs		**5,193**	7,701
Unrealized loss on risk management contracts	11	**9,110**	4,850
Deferred consideration		**(295)**	(286)
Depletion and depreciation	3	**22,534**	15,312
Government grant in-kind	13	**(675)**	(2,083)
Decommissioning expenditures		**(1,049)**	(1,062)
Interest paid	10	**(2,564)**	(6,220)
Changes in non-cash working capital accounts	10	**(6,415)**	(1,486)
Cash provided by operating activities		**40,942**	**14,745**
Financing activities			
Decrease of bank debt		**(24,561)**	(13,390)
Subordinated debt		**-**	17,000
Proceeds from warrants exercised		**1,201**	-
Stock option proceeds		**653**	71
Cash provided by (used in) financing activities		**(22,707)**	3,681
Investing activities			
Investment income received		**14**	6
Exploration and evaluation expenditures		**(7)**	(271)
Property, plant and equipment expenditures	3	**(32,162)**	(23,190)
Changes in non-cash working capital accounts	10	**13,920**	5,029
Cash used in investing activities		**(18,235)**	(18,426)
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)]	Warrants	Accumulated other comprehensive income (loss)[(2)]	Deficit	Total shareholders' equity
January 1, 2021	33,511,316	765,415	30,672	-	(750)	(598,704)	196,633
Share-option compensation			293				293
Exercise of options	22,500	71					71
Transfer to share capital on exercise of options		14	(14)				-
Comprehensive income (loss)					80	(1,684)	(1,604)
March 31, 2021	33,533,816	765,500	30,951	-	(670)	(600,388)	195,393
Share-option compensation			802				802
Shares issued for subordinated promissory note interest	118,896	414					414
Exercise of options	161,240	307					307
Transfer to share capital on exercise of options		154	(154)				-
Issuance of warrants				9,810			9,810
Deferred tax on issuance of warrants				(2,259)			(2,259)
Share issue costs net of tax		(241)		(286)			(527)
Issuance of flow through shares	1,187,000	7,003					7,003
Premium on flow through shares		(356)					(356)
Comprehensive income					449	180,983	181,432
December 31, 2021	35,000,952	772,781	31,599	7,265	(221)	(419,405)	392,019
Share-option compensation			274				274
Exercise of options	491,665	653					653
Transfer to share capital on exercise of options		414	(414)				-
Exercise of warrants	155,000	1,201					1,201
Transfer to share capital on exercise of warrants		341		(341)			-
Comprehensive income					482	10,519	11,001
March 31, 2022	35,647,617	775,390	31,459	6,924	261	(408,886)	405,148

(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, 2022 and December 31, 2021 and for the three months ended March 31, 2022 and March 31, 2021. (unaudited)

1. NATURE OF BUSINESS AND SEGMENT INFORMATION

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

Bonterra operates in one industry and has only one reportable segment which is the development and production of oil and natural gas in the Western Canadian Sedimentary Basin.

The financial statements were authorized for issue by the Company's Board of Directors on May 10, 2022.

2. BASIS OF PREPARATION AND FUTURE OPERATIONS

a) Statement of Compliance

The Company prepares its unaudited condensed financial statements in accordance with International Accounting Standard 34 – Interim Financial Reporting (IAS 34).

The accounting policies and method of computation followed in the preparation of the condensed financial statements are the same as those followed in the preparation of Bonterra's 2021 audited annual financial statements, except as denoted below. These condensed financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the 2021 audited annual financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

3. PROPERTY, PLANT AND EQUIPMENT

Cost ($ 000s)	**Oil and gas properties**	**Production facilities**	**Furniture fixtures & other equipment**	**Total property plant & equipment**
Balance at December 31, 2021	1,508,050	390,725	2,310	1,901,085
Additions	23,430	8,672	60	32,162
Adjustment to decommissioning liabilities	(2,833)	-	-	(2,833)
Balance at March 31, 2022	**1,528,647**	**399,397**	**2,370**	**1,930,414**

Accumulated depletion and depreciation ($ 000s)	**Oil and gas properties**	**Production facilities**	**Furniture fixtures & other equipment**	**Total property plant & equipment**
Balance at December 31, 2021	(815,411)	(180,912)	(1,912)	(998,235)
Depletion and depreciation	(18,753)	(3,764)	(17)	(22,534)
Disposal and other	25	-	-	25
Balance at March 31, 2022	**(834,139)**	**(184,676)**	**(1,929)**	**(1,020,744)**

Carrying amounts as at: ($ 000s)				
December 31, 2021	692,639	209,813	398	902,850
March 31, 2022	**694,508**	**214,721**	**441**	**909,670**

There were no indicators of impairment losses or reversals identified for each of the three months ended March 31, 2022 and 2021.

4. BANK DEBT

As at March 31, 2022, the Company has a total bank facility of $200,000,000 (December 31, 2021 - $210,000,000), comprised of a $175,000,000 syndicated revolving credit facility, and a $25,000,000 non-syndicated revolving credit facility. The amount drawn under the total bank facility at March 31, 2022 was $138,384,000 (December 31, 2021 - $162,945,000). The amounts borrowed under the total bank facility bear interest at a floating rate based on the applicable Canadian prime rate or Banker's Acceptance rate, plus between 2.00 percent and 7.00 percent, depending on the type of borrowing and the Company's consolidated debt to EBITDA ratio. EBITDA is defined as net income for the period excluding finance costs, provision for current and deferred taxes, depletion and depreciation, share-option compensation, gain or loss on sale of assets and impairment of assets. The terms of the total revolving bank facility provide that the loan facility is revolving to May 31, 2022, with a maturity date of November 30, 2022. The available lending limit of the bank facility is scheduled to be reviewed by May 31, 2022.

The amount available for borrowing under the bank facility is reduced by outstanding letters of credit. Letter of credit totaling $1,445,000 were issued as at March 31, 2022 (December 31, 2021 - $1,445,000). Security for the bank facility consists of various floating demand debentures totaling $750,000,000 (December 31, 2021 - $750,000,000) over all of the Company's assets and a general security agreement with first ranking over all personal and real property.

As at March 31, 2022, Bonterra was in compliance with all financial covenants on its total bank facility.

Under the Company' current credit agreement, it is restricted from making any payment of dividend distributions. In addition, the Company is also limited to expenditures on an annual basis which cannot:

- exceed 110 percent or be less than 90 percent of the forecasted decommissioning expenditures settled; and
- exceed 110 percent of forecasted capital expenditures.

5. SUBORDINATED DEBT

As at March 31, 2021, Bonterra had $47,268,000 (December 31, 2021 - $47,268,000) outstanding on a second lien non-revolving term facility due November 13, 2024 from the Business Development Bank of Canada (the "BDC"), through the Business Credit Availability Program (the "BCAP"). The amount drawn under the BCAP facility as at March 31, 2022 was $45,000,000 (December 31, 2021 - $45,000,000). Interest owing of $2,029,000 under the BCAP facility is accrued and added to the principal at five percent for the first year from the effective date of November 13, 2020. Thereafter interest will be paid monthly at an interest rate calculated as the greater of the revolving bank facility rate plus 1.00 percent or a fixed interest rate of 6.00 percent, increasing by 1.00 percent in each of the subsequent years. Security consists of a floating demand debenture over all of the Company's assets and is subordinated to all claims in favor of the syndicate of senior lenders providing credit facilities to the Company. Interest accrued on the BCAP facility during the first three months of 2022 was $240,000 (March 31, 2021 - $437,000). Interest paid in the first three months of 2022 was $696,000 (March 31, 2021 - $nil).

6. SUBORDINATED DEBENTURES

As at March 31, 2022 the Company has a total of 59,000 senior unsecured subordinated debenture units outstanding. Each Unit is comprised of: (i) one senior unsecured debenture with a par value of $1,000 per note and bearing interest at 9.0 percent per annum, which are payable semi-annually; and (ii) 56 common share purchase warrants of Bonterra ("Warrants"). The debentures mature on October 20, 2025 and all or a portion of the principal amount outstanding can be repaid without penalty after October 20, 2024, however, all interest owing to the maturity date must be paid. Total of 3,304,000 Warrants were issued, entitling the holder to purchase one Common Share of Bonterra for each Warrant at a price of $7.75, until October 20, 2025. In the first three months of 2022, $1,328,000 (March 31, 2021 - $nil) of interest was accrued.

The unsecured subordinated debentures were determined to be a compound instrument with a debt and equity component. The fair value of the debt component of the $59,000,000 in debentures were determined on issuance to be 15.6 percent using the effective interest rate method, by discounting future payments of interest and principal with the residual value allocated to Warrants and issue costs. The value of the debt will accrete up to the principal balance at maturity. For more information about Warrants please see Note 8.

7. INCOME TAXES

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

($ 000s)	Rate of Utilization (%)	Amount
Undepreciated capital costs	7-100	64,823
Share issue costs	20	2,197
Canadian oil and gas property expenditures	10	69,424
Canadian development expenditures	30	108,380
Canadian exploration expenditures	100	8,587
Federal income tax losses carried forward(1)	100	53,708
Provincial income tax losses carried forward(2)	100	15,327
		322,446

(1) Federal income tax losses carried forward expire in 2040.
(2) Provincial income tax losses carried forward expire in 2040.

The Company has $8,861,000 (December 31, 2021 - $8,861,000) of investment tax credits that expire in the following years: 2024 - $1,319,000; 2025 - $2,258,000; 2026 - $2,405,000; 2027- $2,009,000; 2028 - $745,000; 2034 - $99,000; and 2037 - $26,000.

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

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, December 31, 2021	**35,000,952**	**772,781**
Issued pursuant to the Company's share option plan	**491,665**	**653**
Transfer from contributed surplus to share capital		**414**
Issued pursuant to the exercise of warrants	**155,000**	**1,201**
Transfer from warrants to share capital		**341**
Balance, March 31, 2022	**35,647,617**	**775,390**

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, 2022, are as follows:

	2022	2021
Basic shares outstanding	**35,177,401**	33,515,316
Dilutive effect of share options [(1)]	**1,592,600**	474,816
Diluted shares outstanding	**36,770,001**	33,990,132

(1) The Company did not include 975,000 share-options and warrants (March 31, 2021 – 649,850) in the dilutive effect of share-options and warrants calculations as these were anti-dilutive.

Warrants

A summary of the status of warrants issued by the Company as of March 31, 2022 and changes during the period are presented below:

	Number of warrants	**Weighted exercise price**
At December 31, 2021	3,304,000	$7.75
Warrants exercised	(155,000)	7.75
At March 31, 2022	3,149,000	$7.75

The Warrants issued entitle the holder to purchase one Common Share of Bonterra for each Warrant at a price of $7.75, until October 20, 2025. Subsequent to the quarter, 296,000 warrants were exercised for total proceeds of $2.3 million.

Options

The Company provides an equity settled option plan for its directors, officers and employees. Under the plan, the Company may grant options for up to 3,564,762 (December 31, 2021 – 3,500,095 common shares). The exercise price of each option granted cannot be lower than the market price of the common shares on the date of grant and the option's maximum term is five years.

A summary of the status of the Company's stock options as of March 31, 2022 and changes during the period are presented below:

	Number of options	**Weighted average exercise price**
At December 31, 2021	2,261,600	$2.56
Options granted	965,000	9.00
Options exercised[(1)]	(585,750)	2.68
Options forfeited	(2,500)	3.14
Options expired	(4,000)	13.97
At March 31, 2022	2,634,350	$4.88

(1) 295,750 options were exercised under the cashless option method, which resulted in 201,665 shares being issued in which the Company received no proceeds.

The following table summarizes information about options outstanding and exercisable as at March 31, 2022:

	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
$ 1.00 - $ 5.00	1,611,350	1.0 years	$ 2.29	1,380,750	$ 2.10
5.01 - 10.00	1,013,000	4.7 years	8.85	36,000	5.90
10.01 - 20.00	10,000	0.5 years	19.28	14,000	19.28
$ 1.00 - $ 20.00	2,634,350	2.4 years	$ 4.88	1,430,750	$ 2.29

The Company records compensation expense over the vesting period, which ranges between one and three years, based on the fair value of options granted to directors, officers and employees. In 2022, the Company granted 965,000 options with an estimated fair value of $3,561,000 or $3.69 per option using the Black-Scholes option pricing model with the following key assumptions:

	March 31, 2022
Weighted-average risk free interest rate (%)[1]	**1.53**
Weighted-average expected life (years)	**2.0**
Weighted-average volatility (%)[2]	**79.50**
Forfeiture rate (%)	**7.41**
Weighted average dividend yield (%)	**1.33**

(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, 2022**	March 31, 2021
Oil and gas sales		
Crude oil	**73,096**	37,986
Natural gas liquids	**5,652**	3,285
Natural gas	**12,794**	7,523
	91,542	48,794
Less royalties:		
Crown	**(6,690)**	(1,862)
Freehold, gross overriding royalties and other	**(3,970)**	(1,924)
	(10,660)	(3,786)
Oil and gas sales, net of royalties	**80,882**	45,008

10. SUPPLEMENTAL CASH FLOW INFORMATION

($ 000s)	**March 31, 2022**	March 31, 2021
Change in non-cash working capital:		
Accounts receivable	**(12,559)**	(8,643)
Crude oil inventory	**(63)**	(90)
Prepaid expenses	**(281)**	(153)
Accounts payable and accrued liabilities	**20,408**	12,429
	7,505	3,543
Changes related to:		
Operating activities	**(6,415)**	(1,486)
Investing activities	**13,920**	5,029
	7,505	3,543

Finance expense

($ 000s)	**March 31, 2022**	March 31, 2021
Interest expense:		
Bank and subordinated debt	**2,564**	6,219
Due to related party	**-**	168
Subordinated debenture	**1,328**	437
Subordinated promissory note	**-**	102
	3,892	6,926
Accretion:		
Decommissioning liabilities	**784**	775
Subordinated debentures	**517**	-
	1,301	775
Total finance costs	**5,193**	7,701
Interest expense	**3,892**	6,926
Interest accrued	**(1,328)**	(706)
Interest paid	**2,564**	6,220

11. FINANCIAL RISK MANAGEMENT

Financial Risk Factors

The Company undertakes transactions in a range of financial instruments including:

- Accounts receivable
- Accounts payable and accrued liabilities
- Common share investments
- Bank debt
- Subordinated debt
- Subordinated debentures

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

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

The Company is exposed to credit risk, liquidity risk and market risk as part of its normal course of business. The Company's overall risk management program seeks to mitigate these risks and reduce the volatility on the Company's financial performance. Financial risk is managed by senior management under the direction of the Board of Directors. The Company does not speculatively trade in risk management contracts. The Company's risk management contracts are entered into to manage the risks relating to commodity prices from its business activities.

Liquidity Risk Management

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company's financial performance and position are largely dependent on the commodity prices received for its oil and natural gas production. Commodity prices have fluctuated widely in recent years due to COVID-19 pandemic, crude oil inventory levels, domestic infrastructure constraints, global economic and geopolitical factors. The Company continues to retain available committed borrowing capacity that provides the Company with financial flexibility and the ability to meet ongoing obligations as they become due.

After examining the economic factors that are causing the liquidity risk facing the Company, the judgment applied to these factors, and the various initiatives that the Company has and will undertake to strengthen its financial position, the Company believes it will have sufficient liquidity to support its ongoing operations and meet its financial obligations as they come due for at least the next twelve months. There can be no assurance that the next borrowing base redetermination will not result in a borrowing base shortfall, and that the necessary funds or additional security will be available to eliminate the short fall. Upon receipt of notice from the lenders, the shortfall would have to be remedied within 30 days or by such other means as acceptable to the lenders.

Credit Risk

Credit risk is the risk that a contracting party will not complete its obligations under a financial instrument and cause the Company to incur a financial loss. The Company is exposed to credit risk on all financial assets included on the statement of financial position. To help mitigate this risk:

- The Company only enters into material agreements with credit worthy counterparties. These include major oil and gas companies or major Canadian chartered banks; and

- Agreements for product sales are primarily on 30-day renewal terms. Of the $36,774,000 accounts receivable balance at March 31, 2022 (December 31, 2021 - $24,215,000) over 97 percent (2021 – 89 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, 2022, there was no material impairment provision required on any of the financial assets of the Company. The Company does have credit risk exposure, as the majority of the Company's accounts receivable are with counterparties having similar characteristics. However, payments from the Company's largest accounts receivable counterparties have consistently been received within 30 days and the sales agreements with these parties are cancellable with 30 days' notice if payments are not received.

At March 31, 2022, approximately $92,000 or 0.3 percent of the Company's total accounts receivable are aged over 90 days and considered past due (December 31, 2021 - $459,000 or 1.9 percent). The majority of these accounts are due from various joint venture partners. The Company actively monitors past due accounts and takes the necessary actions to expedite collection, which can include withholding production or netting payables when the accounts are with joint venture partners. Should the Company determine that the ultimate collection of a receivable is in doubt, it will provide the necessary provision in its allowance for doubtful accounts with a corresponding charge to earnings. If the Company subsequently determines an account is uncollectable, the account is written off with a corresponding charge to the allowance account. The Company's allowance for doubtful accounts balance at March 31, 2022 is $1,214,000 (December 31, 2021 - $1,287,000) with the expense being included in general and administrative expenses. There were no material accounts written off during the period.

The maximum exposure to credit risk is represented by the carrying amounts of accounts receivable. There are no material financial assets that the Company considers past due.

Capital Risk Management

The Company's objectives when managing capital, which the Company defines to include shareholders' equity, debt and working capital balances, are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns to its shareholders and benefits for other stakeholders and to maintain a capital structure that provides a low cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the current debt structure and/or issue common shares.

The Company monitors capital based on the ratio of net debt (total debt adjusted for working capital) to cash flow from operating activities. This ratio is calculated using each quarter end net debt divided by the preceding twelve months' cash flow. During the current period, the Company had a net debt to cash flow level of 2.1:1 compared to 2.8:1 as at December 31, 2021. The improvement in Bonterra's net debt to cash flow ratio is primarily due to an increase in cash flow from increasing commodity prices and production. The net debt to cash flow ratio is expected to continue to improve in subsequent quarters due to the Company's focus on debt reduction paired with improved commodity prices, increased production and having approximately thirty percent of Bonterra's forecasted oil and natural gas production hedged over the next twelve months.

Section (a) of this note provides the Company's debt to cash flow from operations.

Section (b) addresses in more detail the key financial risk factors that arise from the Company's activities including its policies for managing these risks.

a) Net debt to cash flow ratio

The net debt and cash flow amounts are as follows:

($ 000s)	**March 31, 2022**	December 31, 2021
Bank debt[1]	**138,384**	162,945
Subordinated debt	**47,268**	47,268
Subordinated debentures	**49,204**	47,359
Current liabilities	**70,073**	40,920
Current assets	**(44,259)**	(31,313)
Net debt	**260,670**	267,179
Cash flow from operations (preceding twelve months)	**122,300**	96,103
Net debt to cash flow ratio	**2.1**	2.8

(1) Bank debt is classified as a current liability.

b) Risks and mitigation

Market risk is the risk that the fair value or future cash flow of the Company's financial instruments will fluctuate because of changes in market prices. Components of market risk to which the Company is exposed are discussed below.

Commodity Price Risk

The Company's principal operation is the production and sale of crude oil, natural gas and natural gas liquids. Fluctuations in prices of these commodities directly impact the Company's performance and ability to continue with its dividends.

The Company has used various risk management contracts to set price parameters for a portion of its production. The Company has assumed the risk in respect of commodity prices, except for a small portion of physical delivery sales and risk management contracts to manage commodity risk on the Company's higher operating cost areas.

The Company is exposed to credit risk, liquidity risk and market risk as part of its normal course of business. The Company's overall risk management program seeks to mitigate these risks and reduce the volatility on the Company's financial performance. Financial risk is managed by senior management under a risk management program approved by the Board of Directors.

Physical Delivery Sales Contracts

Bonterra enters into physical delivery sales contracts to manage commodity price risk. These contracts are considered normal executory sales contracts and are not recorded at fair value in the financial statements. As of March 31, 2022, the Company has the following physical delivery sales contracts in place.

Product	Type of contract	Volume	Term	Contract price ($)
Oil	Physical collar - WTI[1]	500 BBL/day	Apr 1, 2022 to Jun 30, 2022	48.00 to 75.50 USD/BBL
Oil	Physical collar - WTI[1]	500 BBL/day	Apr 1, 2022 to Jun 30, 2022	48.00 to 77.00 USD/BBL
Oil	Physical collar - WTI[1]	500 BBL/day	Jul 1, 2022 to Sept 30, 2022	48.00 to 77.20 USD/BBL
Oil	Physical collar - WTI[1]	500 BBL/day	Oct 1, 2022 to Dec 31, 2022	48.00 to 77.00 USD/BBL
Oil	Physical collar - WTI[1]	500 BBL/day	Apr 1, 2022 to Jun 30, 2022	75.00 to 92.10 USD/BBL
Oil	Physical collar - WTI[1]	500 BBL/day	Jan 1, 2023 to Mar 31, 2023	65.00 to 86.00 USD/BBL
Oil	Physical collar - WTI[1]	500 BBL/day	Jan 1, 2023 to Mar 31, 2023	70.00 to 100.00 USD/BBL
Oil	Fixed price - MSW differential[2][3]	500 BBL/day	Apr 1, 2022 to Jun 30, 2022	(5.25) USD/BBL
Oil	Fixed price - MSW differential[2][3]	500 BBL/day	Jul 1, 2022 to Sept 30, 2022	(4.65) USD/BBL
Oil	Fixed price - MSW differential[2][3]	500 BBL/day	Apr 1, 2022 to Jun 30, 2022	(2.75) USD/BBL
Oil	Fixed price - MSW differential[2][3]	500 BBL/day	Jan 1, 2023 to Mar 31, 2023	(4.50) USD/BBL
Gas	Physical collar - AECO Monthly[5]	5,000 GJ/day	Apr 1, 2022 to Jun 30, 2022	2.00 to 2.60 GJ/ day
Gas	Fixed Price -AECO Daily[4]	2,000 GJ/day	Apr 1, 2022 to Jun 30, 2022	2.40 GJ/ day
Gas	Physical collar - AECO Monthly[5]	5,000 GJ/day	Jul 1, 2022 to Sep 30, 2022	2.50 to 3.15 GJ/ day
Gas	Fixed Price -AECO Daily[4]	2,500 GJ/day	Jul 1, 2022 to Sep 30, 2022	3.18 GJ/ day
Gas	Fixed Price -AECO Daily[4]	2,500 GJ/day	Nov 1, 2021 to Oct 31, 2022	4.10 GJ/ day
Gas	Fixed Price -AECO Daily[4]	5,000 GJ/day	Oct 1, 2022 to Dec 31, 2022	3.32 GJ/ day
Gas	Physical collar - AECO Monthly[5]	4,000 GJ/day	Oct 1, 2022 to Dec 31, 2022	3.00 to 3.63 GJ/ day
Gas	Physical collar - AECO Monthly[5]	2,500 GJ/day	Apr 1, 2022 to Oct 31, 2022	3.50 to 4.15 GJ/ day
Gas	Physical collar - AECO Monthly[5]	5,000 GJ/day	Jan 1, 2023 to Mar 31, 2023	4.00 to 4.55 GJ/ day
Gas	Physical collar - AECO Monthly[5]	4,000 GJ/day	Jan 1, 2023 to Mar 31, 2023	4.50 to 5.00 GJ/ day

(1) "WTI" refers to West Texas Intermediate, a grade of light sweet crude oil used as benchmark pricing in the United States.
(2) "MSW Stream index" or "Edmonton Par" refers to the mixed sweet blend that is the benchmark price for conventionally produced light sweet crude oil in Western Canada.
(3) "MSW differential" is the primary difference between WTI and MSW steam index benchmark pricing.
(4) "AECO Daily" refers to a grade or heating content of natural gas used as daily index benchmark pricing in Alberta, Canada.
(5) "AECO Monthly" refers to a grade or heating content of natural gas used as monthly index benchmark pricing in Alberta, Canada.

Subsequent to March 31, 2022, the Company entered into the following physical delivery sales contracts.

Product	Type of contract	Volume	Term	Contract price ($)
Gas	Fixed Price -AECO Daily	5,000 GJ/day	Apr 1, 2023 to Jun 30, 2023	4.28 GJ/ day

Risk Management Contracts

($ 000s)	**March 31, 2022**	March 31, 2021
Risk management contracts		
Realized loss	**(6,494)**	(1,966)
Unrealized loss	**(9,110)**	(4,850)
	(15,604)	(6,816)

The Company also enters into financial derivative instruments or risk management contracts to manage commodity price risk. These contracts are not considered normal executory sales contracts and are recorded at fair value in the financial statements. The Company has entered into the following risk management contracts during the period ended March 31, 2022.

Product	Type of contract	Volume	Term	Contract price ($)
Oil	Financial collar -WTI	500 BBL/day	Apr 1, 2022 to Jun 30, 2022	48.00 to 68.90 USD/BBL
Oil	Financial collar -WTI	500 BBL/day	Apr 1, 2022 to Jun 30, 2022	48.00 to 73.10 USD/BBL
Oil	Financial collar -WTI	300 BBL/day	Apr 1, 2022 to Jun 30, 2022	48.00 to 79.75 USD/BBL
Oil	Financial collar -WTI	1,000 BBL/day	Jul 1, 2022 to Sept 30, 2022	48.00 to 75.75 USD/BBL
Oil	Financial collar -WTI	600 BBL/day	Jul 1, 2022 to Sept 30, 2022	48.00 to 81.60 USD/BBL
Oil	Financial collar -WTI	1000 BBL/day	Oct 1, 2022 to Dec 31, 2022	60.00 to 81.25 USD/BBL
Oil	Financial collar -WTI	500 BBL/day	Oct 1, 2022 to Dec 31, 2022	48.00 to 81.25 USD/BBL
Oil	Financial collar -WTI	200 BBL/day	Oct 1, 2022 to Dec 31, 2022	55.00 to 78.45 USD/BBL
Oil	Financial collar -WTI	1000 BBL/day	Oct 1, 2022 to Dec 31, 2022	60.00 to 81.25 USD/BBL
Oil	Financial collar -WTI	500 BBL/day	Oct 1, 2022 to Dec 31, 2022	48.00 to 81.25 USD/BBL
Oil	Financial collar -WTI	200 BBL/day	Oct 1, 2022 to Dec 31, 2022	55.00 to 78.45 USD/BBL
Oil	Financial collar -WTI	500 BBL/day	Jan 1, 2023 to Mar 31, 2023	60.00 to 88.00 USD/BBL
Oil	Financial collar -WTI	500 BBL/day	Jan 1, 2023 to Mar 31, 2023	65.00 to 89.45 USD/BBL
Oil	Financial collar -WTI	500 BBL/day	Jan 1, 2023 to Mar 31, 2023	65.00 to 100.00 USD/BBL
Oil	Financial collar -WTI	500 BBL/day	Apr 1, 2023 to Jun 30, 2023	70.00 to 100.00 USD/BBL
Oil	Fixed price - MSW differential	1,000 BBL/day	Apr 1, 2022 to Jun 30, 2022	(6.55) CAD/BBL
Oil	Fixed price - MSW differential	300 BBL/day	Apr 1, 2022 to Jun 30, 2022	(4.75) USD/BBL
Oil	Fixed price - MSW differential	1,000 BBL/day	Jul 1, 2022 to Sept 30, 2022	(5.90) CAD/BBL
Oil	Fixed price - MSW differential	600 BBL/day	Jul 1, 2022 to Sept 30, 2022	(4.65) USD/BBL
Oil	Fixed price - MSW differential	1000 BBL/day	Oct 1, 2022 to Dec 31, 2022	(6.05) CAD/BBL
Oil	Fixed price - MSW differential	500 BBL/day	Jan 1, 2023 to Mar 31, 2023	(4.40) USD/BBL
Oil	Fixed price - MSW differential	500 BBL/day	Jan 1, 2023 to Mar 31, 2023	(4.20) USD/BBL

Subsequent to March 31, 2022, the Company entered into the following risk management contracts.

Product	Type of contract	Volume	Term	Contract price ($)
Oil	Financial collar -WTI	1,000 BBL/day	Apr 1, 2023 to Jun 30, 2023	75.00 to 101.00 USD/BBL

Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from interest bearing financial assets and liabilities that the Company uses. The principal exposure of the Company is on its borrowings which have a variable interest rate which gives rise to a cash flow interest rate risk.

As of March 31, 2022, the Company's debt facilities consist of a $175,000,000 syndicated revolving credit facility, and a $25,000,000 non-syndicated revolving credit facility, $47,000,000 subordinated debt and $59,000,000 in senior unsecured subordinated debentures. The borrowings under the total bank facilities are at bank prime plus or minus various percentages as well as by means of banker's acceptances ("BAs") within the Company's credit facility. Subordinated debt is at the greater of six percent and increases by one percent in subsequent years or the revolving bank facility rate plus one percent. The subordinated debentures are at a fixed interest rate of nine percent. The Company manages its exposure to interest rate risk on its floating interest rate debt through entering into various term lengths on its BAs but in no circumstances do the terms exceed six months.

Sensitivity Analysis

Based on historic movements and volatilities in the interest rate markets and management's current assessment of the financial markets, the Company believes that a one percent variation in the Canadian prime interest rate is reasonably possible over a 12 month period.

A one percent increase (decrease) in the Canadian prime rate would decrease (increase) both annual net earnings and comprehensive income by $1,429,000.

Equity Price Risk

Equity price risk refers to the risk that the fair value of the investments and investment in related party will fluctuate due to changes in equity markets. Equity price risk arises from the realizable value of the investments that the Company holds which are subject to variable equity market prices which on disposition gives rise to a cash flow equity price risk. The Company will assume full risk in respect of equity price fluctuations.

Foreign Exchange Risk

The Company has no foreign operations and currently sells all of its product sales in Canadian currency. The Company however is exposed to currency risk in that crude oil is priced in US currency, then converted to Canadian currency. The Company currently has no outstanding risk management agreements. The Company will assume full risk in respect of foreign exchange fluctuations.

12. COMMITMENTS AND FINANCIAL LIABILITIES

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

($ 000s)	Recognized on Financial Statements	Less than 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 7 years	Total
Accounts payable and accrued liabilities	Yes - Liability	55,246	-	-	-	55,246
Bank Debt	Yes - Liability	138,384	-	-	-	138,384
Subordinated debt[1]	Yes - Liability	-	47,029	-	-	47,029
Suboridnated debentures[1]	Yes - Liability	-	-	59,000	-	59,000
Future interest	No	8,308	16,440	2,876	-	27,624
Firm service commitments	No	738	1,156	415	91	2,400
Office lease commitments	No	521	959	843	-	2,323
Total		203,197	65,584	63,134	91	332,006

(1) Principal amount.

The Company has entered into firm service gas transportation agreements in which the Company guarantees certain minimum volumes of natural gas will be shipped on various gas transportation systems. The terms of the various agreements expire in one to seven years. The future minimum payment amounts for the firm service gas transportation agreements are calculated using current tariff rates.

The Company also has non-cancellable office lease commitments for building and office equipment. The building and office equipment leases have an average remaining life of 4.6 years.

13. GOVERNMENT GRANTS

The Government of Alberta's Site Rehabilitation Program ("SRP") provides grant funding through service providers to abandon or remediate oil and gas sites. The Company derecognized approximately $675,000 of asset retirement obligations as an in-kind grant (March 31, 2021 - $2,083,000). The benefit of the in-kind grant is recognized through other income.

Canadian Emergency Wage Subsidy ("CEWS") is a federal program that allows eligible companies to receive a subsidy of employee wages, subject to a maximum per employee. During the three-month period ended March 31, 2022, the Company received $nil (March 31, 2021 - $152,000), which resulted in a reduction of employee compensation.

Corporate Information

Board of Directors
D. Michael G. Stewart - Chair
John J. Campbell
George F. Fink
Stacey E. McDonald
Jacqueline R. Ricci
Rodger A. Tourigny

Officers
George F. Fink, CEO
Robb D. Thompson, CFO and Corporate Secretary
Adrian Neumann, Chief Operating Officer
Brad A. Curtis, Senior VP, Business Development

Registrar and Transfer Agent
Odyssey Trust Company

Auditors
Deloitte LLP

Solicitors
Borden Ladner Gervais LLP

Bankers
CIBC
National Bank of Canada
The Toronto-Dominion Bank
ATB Financial
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