For the three and six months ended June 30, 2023

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BONTERRA ENERGY REPORTS SECOND QUARTER 2023 FINANCIAL AND OPERATING RESULTS

HIGHLIGHTS

As at and for the periods ended ($ 000s except for $ per share and $ per BOE)		Three months ended **June 30, 2023**	 June 30, 2022	Six months ended **June 30, 2023**	 June 30, 2022
FINANCIAL					
Revenue - realized oil and gas sales		**75,606**	116,674	**152,869**	208,216
Funds flow [(1)]		**34,799**	61,892	**64,141**	108,984
Per share - basic		**0.94**	1.72	**1.73**	3.06
Per share - diluted		**0.93**	1.63	**1.72**	2.90
Cash flow from operations		**33,854**	58,307	**57,872**	99,249
Per share - basic		**0.91**	1.62	**1.56**	2.79
Per share - diluted		**0.91**	1.53	**1.55**	2.64
Net earnings		**8,844**	33,544	**16,484**	44,063
Per share - basic		**0.24**	0.93	**0.44**	1.24
Per share - diluted		**0.24**	0.88	**0.44**	1.17
Capital expenditures		**16,116**	14,506	**76,339**	46,675
Total assets				**962,021**	934,303
Net debt[(2)]				**168,344**	211,284
Bank debt				**35,506**	111,476
Shareholders' equity				**498,449**	442,653
OPERATIONS					
Light oil	-barrels (bbl) per day	**7,282**	7,623	**7,175**	7,490
	-average price ($ per bbl)	**93.21**	126.97	**94.44**	118.88
NGLs	-bbl per day	**1,248**	1,151	**1,202**	1,074
	-average price ($ per bbl)	**43.97**	77.23	**49.02**	70.67
Conventional natural gas	- MCF per day	**32,286**	33,323	**31,869**	31,476
	- average price ($ per MCF)	**3.01**	6.76	**3.39**	5.85
Total barrels of oil equivalent per day (BOE)[(3)]		**13,911**	14,328	**13,689**	13,810

(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 bank debt, subordinated debt, subordinated debentures and subordinated term debt.

(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

I am pleased to provide an update for our stakeholders on Bonterra Energy Corp's. ("Bonterra" or the "Company") solid operating and financial results for the three and six month periods ended June 30, 2023. We executed within guidance across all metrics under our control and continued to focus on enhancing financial flexibility with safe, responsible and efficient operations, highlighted by quarter-over-quarter increases in production, cash flow and net earnings while driving net debt lower. The Company remained on strategy with debt reduction, the continued pursuit of accretive acquisitions and positioning for a shareholder return of capital launch in the coming quarters.

Continued Operational Excellence

Having successfully executed the largest capital program in the Company's history during Q1, which featured numerous wells performing above type curve estimates, Bonterra entered Q2 2023 with strong production from wells drilled late in Q1 2023. Production for the quarter was 13,911 BOE per day, three percent higher than the previous quarter, reflecting well outperformance from the new production brought onstream late in Q1 2023, offset by the 333 BOE per day of shut-in production stemming from the Alberta wildfires.

Capital expenditures of $16.1 million in the quarter were significantly reduced from Q1 2023, consistent with the seasonal norms associated with spring break-up, and Bonterra continued to demonstrate efficient capital deployment. The Q2 program included the drilling of four gross (4.0 net) operated wells that were brought on-line early in Q3, and the completion, equip and tie-in of seven gross (6.4 net) operated wells, with approximately $1.5 million invested in related infrastructure, recompletions and our non-operated capital programs. In addition, we concluded the expansion of Bonterra's wholly-owned gas plant which is expected to eliminate processing capacity limitations and support future growth.

With the higher volumes realized and lower well maintenance costs for well reactivations, our per unit production costs in Q2 2023 declined by four percent over the previous quarter and averaged $16.88 per BOE. During the first six months of 2023, production costs per BOE increased three percent compared to the same period in 2022 due to increased power rates and emulsion hauling costs for new wells that are not pipeline connected.

Financial Performance Continues Amid Commodity Price Weakness

Throughout Q2, oil prices continued to soften due to macroeconomic uncertainty which impacted demand, including concerns about high inflation, rising interest rates and recessionary fears, yet supply remained resilient. With expectations that OPEC+ will continue to manage global oil supply, prices are expected to be supported through the balance of 2023 and into 2024. Similarly, natural gas pricing remained weak through the second quarter, as inventories rose steadily given muted heating and cooling demand caused by unusually mild weather conditions, coupled with a continued strong supply of natural gas from North America.

During the second quarter, the Company realized oil and natural gas sales of $75.6 million, and in the first six months of the year we generated $152.9 million, compared to $116.7 million and $208.2 million in the same respective periods of 2022. With oil and liquids revenue representing approximately 87 percent of the total, the approximately 27 percent decline in light oil prices in Q2 2023 compared to Q2 2022 contributed to lower field and cash netbacks. Our field and cash netbacks were $36.78 per BOE and $27.49 per BOE in Q2 2023, respectively, compared to $34.90 per BOE and $24.21 per BOE in Q1 2023, respectively, and $54.86 per BOE and $47.47 per BOE, respectively, in Q2 of 2022.

The Company recorded net earnings for the three and six month periods ending June 30, 2023, generating $8.8 million ($0.24 per diluted share) and $16.5 million ($0.44 per diluted share) in each respective period. Funds flow for the quarter totaled $34.8 million ($0.93 per diluted share), and for the six months ended June 30, 2023 was $64.1 million ($1.72 per diluted share), representing declines of 44 percent and 41 percent compared to the same respective periods last year, primarily due to lower commodity pricing in 2023 relative to 2022.
As anticipated, net debt at June 30, 2023, declined quarter-over-quarter to $168.3 million compared to $183.7 million at March 31, 2023, a function of lower capital spending and field activity combined with higher production volumes, offset by lower realized prices per BOE.

First Montney Test Well Planned

We are also excited to confirm that before the end of 2023, Bonterra plans to drill its first Montney test well on our contiguous 45 section (28,880 acres) 100 percent working interest land base situated north of Grand Prairie (Valhalla) while remaining within capital budget guidance of $120 to $125 million. The Montney is recognized as one of Canada's top ranked plays in terms of deliverability and economics; the successful testing and delineation of Bonterra's Valhalla area represents an exciting strategic asset and is expected to provide greater optionality and an expanded potential development runway for the future.

Reclaiming for the Future

While executing on a modest capital program during the second quarter, Bonterra continued to progress our ongoing abandonment and reclamation efforts and leveraged support of the Alberta Site Rehabilitation Program ("SRP"), which concluded in Q2 2023. During the three and six months ended June 30, 2023, the Company abandoned 13.9 net wells and 24 pipelines, and 60.1 net wells and 60 pipelines, respectively. By year end 2023, Bonterra expects to have abandoned approximately 75 percent of all wells identified as having no further economic potential, building on the successful abandonment of 547.6 net wells, 347 pipelines and six facilities since the beginning of 2020.

Outlook

Based on our successful second quarter of 2023, combined with positive movements in forward commodity prices for the remainder of the year, we are pleased to reaffirm our previously released 2023 guidance as outlined in the Company's December 15, 2022 press release. Due to asset outperformance, our annual average production volumes are trending towards the high end of the previously provided guidance range of between 13,500 and 13,700 BOE per day[1], and are expected to be weighted approximately 60 percent to oil and liquids. With this weighting, Bonterra is well positioned to benefit from anticipated higher commodity prices for the second half of 2023, which is expected to further support the Company's significantly improved balance sheet.

Bonterra expects to drill approximately 14.6 net wells in the second half of 2023, including our exciting new Montney test well. In addition, we anticipate directing capital to facilities, pipelines and a continued commitment to ongoing abandonment and reclamation activities, which is expected to result in full year 2023 expenditures remaining within our original net capital budget of $120 to $125 million. We are continuing to target a return of capital strategy in the coming quarters, contingent on minimal bank debt drawn and net debt to EBITDA of less than 1.0:1.0.

Our hedging program offers protection on approximately 30 percent of Bonterra's expected crude oil and natural gas production through to Q1 2024 which further supports stability. Bonterra will also seek to identify and transact on accretive acquisitions that can increase production, add to the drilling inventory, generate free cash flow and further bolster our balance sheet. At the Company's current valuation, we offer exposure to an excellent value play relative to many of our peers.

[1] 2023 volumes are anticipated to be comprised of 7,000 bbl/d light and medium crude oil, 1,200 bbl/d NGLs and 32,400 mcf/d of conventional natural gas based on a midpoint of 13,600 BOE/d.

As part of Bonterra's continued corporate evolution, we look forward to announcing the appointment of an additional new director this fall, along with unveiling a refreshed corporate identity and corporate materials. We believe these ongoing enhancements will improve the alignment between our current strengths and innovative approach to leveraging future opportunities. More details will be available in the coming months regarding our board of directors and new visual identity.

Once again, I would like to thank all of our stakeholders and shareholders for their support, and to acknowledge our dedicated employees and Board of Directors for their ongoing commitment to driving Bonterra's success.

Patrick Oliver
President and Chief Executive Officer

Management's Discussion and Analysis

The following report dated August 10, 2023 is a review of the operations and current financial position for the three and six months ended June 30, 2023 for Bonterra Energy Corp. ("Bonterra" or "the Company") and should be read in conjunction with the unaudited condensed financial statements and the audited financial statements including the notes related thereto for the fiscal year ended December 31, 2022 presented under International Financial Reporting Standards (IFRS), as well as Bonterra Annual Information 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 entities.

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

Frequently Recurring Terms

Bonterra uses the following frequently recurring terms in this MD&A: "WTI" refers to West Texas Intermediate, a grade of light sweet crude oil used as benchmark pricing in the United States; "MSW Stream Index" or "Edmonton Par" refers to the mixed sweet blend that is the benchmark price for conventionally produced light sweet crude oil in Western Canada; "AECO" is the benchmark price for natural gas in Alberta, Canada; "bbl" refers to barrel; "NGL" refers to natural gas liquids; "MCF" refers to thousand cubic feet; "MMBTU" refers to million British Thermal Units; "GJ" refers to gigajoule; "LNG" refers to liquefied natural gas; and "BOE" refers to barrels of oil equivalent. Disclosure provided herein in respect of a BOE may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 MCF: 1 bbl is based on an energy conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Numerical Amounts

The reporting and the functional currency of the Company is the Canadian dollar.

QUARTERLY COMPARISONS

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

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

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

Business Environment and Sensitivities

Bonterra's financial results may be influenced by fluctuations in commodity prices, including price differentials, as well as production volumes and foreign exchange rates. The following table depicts selective market benchmark commodity prices, differentials, and foreign exchange rates in the last eight quarters to assist in understanding how past volatility has impacted Bonterra's financial and operating performance. The increases or decreases in Bonterra's realized average price for oil and natural gas for each of the eight quarters is also outlined in detail in the following table.

	Q2-2023	Q1-2023	Q4-2022	Q3-2022	Q2-2022	Q1-2022	Q4-2021	Q3-2021
Crude oil								
WTI (U.S.$/bbl)	**73.78**	76.13	82.64	91.56	108.41	94.29	77.19	70.56
WTI to MSW Stream Index								
Differential (U.S.$/bbl)[1]	**(2.96)**	(2.86)	(1.61)	(2.05)	(0.50)	(2.96)	(3.10)	(4.08)
Foreign exchange								
U.S.$ to Cdn$	**1.3431**	1.3520	1.3578	1.3059	1.2766	1.2662	1.2601	1.2602
Bonterra average realized								
oil price (Cdn$/bbl)	**93.21**	95.71	105.59	111.44	126.97	110.41	85.04	78.42
Natural gas								
AECO (Cdn$/mcf)	**2.44**	3.20	5.09	4.14	7.20	4.72	4.63	3.58
Bonterra average realized								
gas price (Cdn$/mcf)	**3.01**	3.78	5.36	4.73	6.76	4.80	4.93	3.94

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

WTI prices averaged $73.78 USD per barrel in Q2 2023, a decrease of 32 percent compared to Q2 2022. The pricing decline into 2023 has been driven by supply and demand volatility due to a variety of macroeconomic and geopolitical factors. These factors include, but are not limited to, crude oil supply growth outside of OPEC+, persistent production from Russia and a slower than expected ramp up in demand from China as their economy rebounds from COVID-19 related restrictions.

In addition to the WTI benchmark price, the Company's realized crude oil price is impacted by the MSW Stream Index or Edmonton Par differential (the "Differential"). The Differential averaged ($2.96) USD per barrel in Q2 2023, a decrease of $2.46 from Q2 2022. Replenished inventories at the Cushing storage hub in Oklahoma have been the largest contributing factor in moving the index to a more normal level compared to a year ago. Refining demand for sweet crude oil combined with limited pipeline apportionment should be supportive for the movement and pricing of MSW crude oil in the near term. Longer term, the Trans Mountain Expansion is expected to increase Canada's export capabilities and is anticipated to have a positive effect on the movement and pricing of all Canadian barrels.

AECO daily spot prices averaged $3.01 per mcf in Q2 2023, a decrease of 55 percent over Q2 2022. The decrease is mainly due to looser supply demand balances and comfortable storage levels that occurred as a result of unexpected demand losses, an unseasonably mild winter across much of North America and continued strong supply.

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

Annualized sensitivity analysis on before tax cash flow, as estimated for 2023 [1]

Impact on cash flow	Change ($)	$000s	$ per share[2]
Realized crude oil price ($/bbl)	1.00	2,191	0.06
Realized natural gas price ($/mcf)	0.10	1,119	0.03
U.S.$ to Canadian $ exchange rate	0.01	1,687	0.05

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

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

Business Overview, Strategy and Key Performance Drivers

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

On May 9, 2023, Bonterra completed the renewal of its bank facility totaling $110 million, of which $35.5 million has been drawn as of June 30, 2023 (the "Bank Facility"). The Bank Facility is restructured as a normal course, reserve-based credit facility available on a revolving basis through April 30, 2024, with bi-annual borrowing base redeterminations and a term maturity of April 30, 2025.

Production averaged 13,689 BOE per day in the first six months of 2023, a decrease of 121 BOE per day, or 0.8 percent, compared to the same period in 2022. The slight decrease in Q2 2023 was due to 333 BOE per day of shut-in production caused by wildfires in central Alberta. Quarter-over-quarter, Bonterra's production increased by 447 BOE per day, which was realized even after the impact of the aforementioned shut-in production. The Company anticipates its annual average production will be near the upper limit of its 2023 guidance range, averaging between 13,500 to 13,700 BOE per day.

The Company remains focused on strengthening its debt profile, with quarter end net debt decreasing by $15.3 million compared to Q1 2023, and by over $42.9 million since June 30, 2022. These reductions were largely enabled by increased cash flow resulting from comparatively higher commodity prices and production.

Bonterra invested capital expenditures of $76.3 million in the first six months of 2023. Of the total capital invested, $63.0 million was directed to the drilling of 26 gross (24.6 net) operated wells and completing, equipping, tying-in and placing on production 22 gross (20.6 net) operated wells, with the remaining four gross (4.0 net) operated wells to be placed on production in Q3 2023. The Company also directed $3.7 million of the capital program to the expansion of a wholly owned gas plant to alleviate processing capacity limitations, and an additional $9.6 million was directed to related infrastructure, recompletions and non-operated capital programs.

The Company has continued to focus on responsible environmental initiatives, including a targeted abandonment and reclamation program with support from the Alberta Site Rehabilitation Program ("SRP"). During the first six months of 2023, Bonterra successfully abandoned 60.1 net wells and 60 pipelines and plans to abandon an additional 113 pipelines in the second half of 2023. By the end of 2023, Bonterra expects to have abandoned approximately 75 percent of all wells identified as having no further economic potential.

As part of the Company's ongoing efforts to diversify commodity pricing and to protect future cash flows, Bonterra has executed physical delivery sales and risk management contracts to the end of Q1 2024 on approximately 30 percent of its expected crude oil and natural gas production. For the next nine months, Bonterra has secured a WTI price between $50.00 USD to $98.65 USD per bbl on 2,200 bbls per day, with a WTI to Edmonton par differential at $3.80 USD per barrel on approximately 500 barrels of oil per day for Q3 2023. In addition, the Company has secured natural gas prices between $2.50 to $5.00 per GJ on 10,784 GJ per day to the end of Q1 2024.

Bonterra's successful operations are dependent upon several factors including, but not limited to: commodity prices, efficient management of capital spending, the ability to maintain desired production levels, control over infrastructure, efficiency in developing and operating properties, and the ability to control costs. The Company's key measures of performance with respect to these drivers include, but are not limited to, average daily production volumes, average realized prices, and average production costs per unit of production. Disclosure of these key performance measures can be found within this MD&A and/or previous interim or annual MD&A disclosures.

Drilling

	Three months ended						Six months ended			
	June 30, 2023		March 31, 2023		June 30, 2022		**June 30, 2023**		June 30, 2022	
	Gross[1]	**Net[2]**	Gross[1]	Net[2]	Gross[1]	Net[2]	**Gross[1]**	**Net[2]**	Gross[1]	Net[2]
Crude oil horizontal-operated	**4**	**4.0**	22	20.6	3	2.9	**26**	**24.6**	15	14.7
Crude oil horizontal-non-operated	**-**	**-**	6	1.1	-	-	**6**	**1.1**	6	0.7
Total	**4**	**4.0**	28	21.7	3	2.9	**32**	**25.7**	21	15.4
Success rate		**100%**		100%		100%		**100%**		100%

(1) "Gross" wells are the number of wells in which Bonterra has a working interest.

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

During the first six months of 2023, the Company drilled 26 gross (24.6 net) operated wells and completed, tied in, and placed on production 22 gross (20.6 net) operated wells. The four gross (4.0 net) operated wells that were drilled in Q2 2023 are expected to be completed, equipped and tied-in during Q3 2023.

Production

	Three months ended			Six months ended	
	June 30, 2023	March 31, 2023	June 30, 2022	**June 30, 2023**	June 30, 2022
Crude oil (barrels per day)	**7,282**	7,068	7,623	**7,175**	7,490
NGLs (barrels per day)	**1,248**	1,155	1,151	**1,202**	1,074
Natural gas (MCF per day)	**32,286**	31,448	33,323	**31,869**	31,476
Average BOE per day	**13,911**	13,464	14,328	**13,689**	13,810

The Company averaged 13,689 BOE per day of production in the first six months of 2023, which was lower than the comparable period in 2022. The slight decrease was due to 333 BOE per day of shut-in volumes in Q2 2023 as a result of the wildfires that occurred in central Alberta during the period.

Quarter-over-quarter production increased by 447 BOE per day as the Company realized the full benefit of new wells that were placed on production late in the first quarter, which was partially offset by shut-in production from the wildfires in May.

Cash Netback

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

	Three months ended			Six months ended	
$ per BOE	**June 30, 2023**	March 31, 2023	June 30, 2022	**June 30, 2023**	June 30, 2022
Production volumes (BOE)	**1,265,887**	1,211,735	1,303,822	**2,477,622**	2,499,695
Gross production revenue	**59.73**	63.76	89.49	**61.70**	83.30
Realized gain (loss) on risk management contracts	**0.95**	(0.09)	(4.63)	**0.44**	(5.01)
Royalties	**(7.02)**	(11.23)	(13.78)	**(9.08)**	(11.45)
Production costs	**(16.88)**	(17.54)	(16.22)	**(17.20)**	(16.71)
Field netback	**36.78**	34.90	54.86	**35.86**	50.13
General and administrative	**(2.73)**	(2.32)	(3.00)	**(2.53)**	(2.73)
Interest and other	**(3.83)**	(4.14)	(2.70)	**(3.97)**	(2.92)
Current income tax[1]	**(2.73)**	(4.23)	(1.69)	**(3.47)**	(0.88)
Cash netback	**27.49**	24.21	47.47	**25.89**	43.60
$000s					
Investment tax credits used ("ITC")[1]	**459**	3,801	-	**4,260**	-
ITCs used $ per BOE	**0.36**	3.14	-	**1.72**	-
Adjusted cash netback	**27.85**	27.35	47.47	**27.61**	43.60

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

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

Oil and Gas Sales

	Three months ended			Six months ended	
	June 30, 2023	March 31, 2023	June 30, 2022	**June 30, 2023**	June 30, 2022
Revenue - oil and gas sales ($ 000s)					
Light oil	**61,770**	60,883	88,080	**122,653**	161,176
NGL	**4,993**	5,668	8,086	**10,661**	13,738
Conventional natural gas	**8,843**	10,712	20,508	**19,555**	33,302
	75,606	77,263	116,674	**152,869**	208,216
Average realized prices:					
Light oil ($ per barrel)	**93.21**	95.71	126.97	**94.44**	118.88
NGL ($ per barrel)	**43.97**	54.54	77.23	**49.02**	70.67
Conventional natural gas ($ per MCF)	**3.01**	3.78	6.76	**3.39**	5.85
Average ($ per BOE)	**59.73**	63.76	89.49	**61.70**	83.30
Average BOE per day	**13,911**	13,464	14,328	**13,689**	13,810

Revenue from oil and gas sales in the first six months of 2023 decreased by $55.3 million, or 27 percent, compared to the same period in 2022. This decrease was primarily driven by a 21 percent reduction in Bonterra's realized crude oil prices over the same period. Quarter-over-quarter, revenue from oil and gas sales also decreased due to lower realized commodity prices. This was partially offset by a three percent increase in production from the Company's successful capital program.

Bonterra's product split on a revenue basis was weighted approximately 87 percent to crude oil and NGLs during 2023.

Royalties

	Three months ended			Six months ended	
($ 000s)	**June 30, 2023**	March 31, 2023	June 30, 2022	**June 30, 2023**	June 30, 2022
Crown royalties	**6,157**	9,966	12,673	**16,123**	19,363
Freehold, gross overriding and other royalties	**2,735**	3,637	5,287	**6,372**	9,257
Total royalties	**8,892**	13,603	17,960	**22,495**	28,620
Crown royalties - percentage of revenue	**8.1**	12.9	10.9	**10.5**	9.3
Freehold, gross overriding and other royalties - percentage of revenue	**3.6**	4.7	4.5	**4.2**	4.4
Royalties - percentage of revenue	**11.7**	17.6	15.4	**14.7**	13.7
Royalties $ per BOE	**7.02**	11.23	13.78	**9.08**	11.45

Royalties paid by the Company consist of both Crown royalties to the Provinces of Alberta, Saskatchewan and British Columbia and other royalties. Total royalties for the first six month period ended June 30, 2023 2023 decreased by $2.37 per BOE compared to the same period in 2022 primarily due to a decrease in commodity prices. Quarter-over-quarter, royalties also decreased due to lower commodity prices.

Production Costs

	Three months ended			Six months ended	
($ 000s except $ per BOE)	**June 30, 2023**	March 31, 2023	June 30, 2022	**June 30, 2023**	June 30, 2022
Production costs	**21,367**	21,250	21,153	**42,617**	41,768
$ per BOE	**16.88**	17.54	16.22	**17.20**	16.71

Production costs for the first half of 2023 were slightly higher than the same period in 2022, primarily due to a 45 percent increase in power rates and increased emulsion hauling from new wells that are not pipeline connected.

Quarter-over-quarter, production costs decreased on a BOE basis due to less well maintenance costs for well reactivations in Q2 2023. During the second quarter, the Company also received the full benefit of production from new wells brought online in late Q1 2023, which also reduced costs on a BOE basis.

Other Income

	Three months ended			Six months ended	
	June 30,	March 31,	June 30,	**June 30,**	June 30,
($ 000s)	**2023**	2023	2022	**2023**	2022
Investment income	**117**	99	42	**216**	56
Administrative income	**55**	73	221	**128**	325
Government grant in-kind	**-**	782	937	**782**	1,612
Deferred consideration	**253**	250	309	**503**	604
Realized gain (loss) on risk management contracts	**1,204**	(111)	(6,036)	**1,093**	(12,530)
Unrealized gain (loss) on risk management contracts	**(1,298)**	1,506	3,675	**208**	(5,435)
	331	2,599	(852)	**2,930**	(15,368)

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 June 30, 2023 totaled $1,711,000 (June 30, 2022 - $1,785,000). There were no dispositions during the period ended June 30, 2023 or June 30, 2022. Dispositions that result in a gain or loss on sale are recorded as an equity transfer between accumulated other comprehensive income and retained earnings.

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

The Government of Alberta's SRP provides grant funding through service providers to abandon or remediate oil and gas sites, which concluded in Q2 2023. The Company derecognized approximately $0.8 million of asset retirement obligations as an in-kind grant in 2023 (June 30, 2022 - $1.6 million). The benefit of the in-kind grant is recognized through other income.

To minimize commodity price risk on crude oil and natural gas sales, Bonterra has entered into financial derivatives. The financial derivatives outstanding are primarily for the period from July 1, 2023 to March 31, 2024 and are for a total of 604,900 barrels of light crude oil (approximately 2,200 barrels of oil per day for the next nine months) at fixed WTI prices ranging from $50.00 USD to $98.65 USD per barrel, with a fixed differential from WTI to Edmonton Par prices for 46,000 barrels of oil (approximately 500 barrels of oil per day for Q3 2023) at $3.80 USD per barrel. In addition, the Company has entered into financial derivatives on natural gas prices between $2.50 and $5.00 on 5,000 GJ per day for the period from July 1, 2023 to March 31, 2024. These contracts are not considered normal sales contracts and are recorded at fair value.

General and Administrative ("G&A") Expense

($ 000s except $ per BOE)	Three months ended June 30, 2023	March 31, 2023	June 30, 2022	Six months ended June 30, 2023	June 30, 2022
Employee compensation	**1,563**	1,883	2,610	**3,446**	4,305
Office and administrative	**1,887**	923	1,304	**2,810**	2,516
Total G&A	**3,450**	2,806	3,914	**6,256**	6,821
$ per BOE	**2.73**	2.32	3.00	**2.53**	2.73

Office and administrative expense increased in the first six months of 2023 compared to the same period in 2022 due to an increase in software costs, technical and advisory consulting fees, insurance premiums and in the provision for the allowance for doubtful accounts.

Finance Costs

($ 000s except $ per BOE)	Three months ended June 30, 2023	March 31, 2023	June 30, 2022	Six months ended June 30, 2023	June 30, 2022
Interest on bank debt and subordinated debt	**879**	972	2,450	**1,851**	5,014
Subordinated debentures	**1,327**	1,328	1,327	**2,655**	2,655
Subordinated term debt	**2,804**	2,898	-	**5,702**	-
Interest expense	**5,010**	5,198	3,777	**10,208**	7,669
$ per BOE	**3.96**	4.29	2.90	**4.12**	3.07
Accretion of decommissioning liabilities	**947**	924	634	**1,871**	1,418
Accretion on subordinated debentures	**709**	611	610	**1,320**	1,127
Accretion on subordinated term debt	**561**	557	-	**1,118**	-
Total finance costs	**7,227**	7,290	5,021	**14,517**	10,214

Interest on bank debt was lower in the first six months of 2023 compared to 2022 due to a decrease of approximately 84 percent in the average bank debt outstanding.

Subordinated debt interest relates to the Business Development Bank of Canada ("BDC") $47 million second lien non-revolving four-year term loan (the "BDC Loan"). Interest on the BDC Loan was $nil (June 30, 2022 - $1.4 million). The BDC loan was repaid on November 25, 2022.

Subordinated unsecured term debt on June 30, 2023 was $85.5 million (December 31, 2022 - $95 million) (the "Subordinated Term Debt"). The Subordinated Term Debt has a fixed interest rate of 11.70 percent on 25 percent of the principal balance and a floating interest rate of Canadian Prime plus 6.25 percent on the remaining amount. Based on the calculated fair value of the Subordinated Term Debt as at June 30, 2023, the effective interest rate was determined to be 16.2 percent using the effective interest rate method. The value of the debt will accrete up to the principal balance at maturity. For more information on Subordinated Term Debt, refer to Note 6 of the June 30, 2023, condensed financial statements.

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

A one percent increase (decrease) in the Canadian prime rate would decrease (increase) both annual net earnings and comprehensive income by approximately $767,000.

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

Share-Option Compensation

	Three months ended			Six months ended	
	June 30,	March 31,	June 30,	**June 30,**	June 30,
($ 000s)	**2023**	2023	2022	**2023**	2022
Share-option compensation	**702**	1,109	479	**1,811**	753

Share-option compensation is a statistically calculated value representing the estimated expense of issuing employee stock options. The Company records a compensation expense over the vesting period based on the fair value of options granted to directors, officers, and employees.

Based on the outstanding options as of June 30, 2023, the Company has an unamortized expense of $2,928,000, of which $1,179,000 will be recognized for the remainder of 2023; $1,344,000 in 2024 and $405,000 thereafter. For more information about options issued and outstanding, refer to Note 8 of the June 30, 2023, condensed financial statements.

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

	Three months ended			Six months ended	
	June 30,	March 31,	June 30,	**June 30,**	June 30,
($ 000s)	**2023**	2023	2022	**2023**	2022
Depletion and depreciation	**22,607**	21,817	22,791	**44,424**	45,325

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

Taxes

The Company recorded a total income tax expense of $7.2 million in the first six months of 2023 (2022 – $15.3 million). The income tax expense decreased due to a decrease in earnings before income taxes. The current income tax portion of the provision of $8.6 million, is comprised of $2.4 million payable to the province of Alberta and the remainder to the Federal government. The Company used $4.3 million of investment tax credits to offset the cash owing for federal income tax.

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

Net Earnings

	Three months ended			Six months ended	
	June 30,	March 31,	June 30,	**June 30,**	June 30,
($ 000s except $ per share)	**2023**	2023	2022	**2023**	2022
Net earnings	**8,844**	7,640	33,544	**16,484**	44,063
$ net earnings per share - basic	**0.24**	0.21	0.93	**0.44**	1.24
$ net earnings per share - diluted	**0.24**	0.20	0.88	**0.44**	1.17

Net earnings for the first six months 2023 decreased by $27.6 million compared to 2022. The decrease in net earnings was primarily attributed to lower commodity prices realized during the period. This was partially offset by a gain on risk management contracts in the current year compared to a loss on risk management contracts in the period year and a decrease in the tax provision.

Other Comprehensive Income

Other comprehensive income for 2023 consists of an unrealized loss before tax on investments (including investment in a related party) of $317,000 relating to a decrease in the investments' fair value (June 30, 2022 –$894,000 gain). Realized gains result in decreases to accumulated other comprehensive income as these gains are transferred to retained earnings. Other comprehensive income varies from net earnings by unrealized changes in the fair value of Bonterra's holdings of investments, including the investment in a related party, net of tax.

Cash Flow From Operations

	Three months ended			Six months ended	
($ 000s except $ per share)	**June 30, 2023**	March 31, 2023	June 30, 2022	**June 30, 2023**	June 30, 2022
Cash flow from operations	**33,854**	24,018	58,307	**57,872**	99,249
$ per share - basic	**0.91**	0.65	1.62	**1.56**	2.79
$ per share - diluted	**0.91**	0.64	1.53	**1.55**	2.64

In the first six months of 2023, cash flow from operations decreased by $41.4 million compared to 2022. This was primarily due to a decrease in realized commodity prices.

Quarter-over-quarter, cash flow from operations increased primarily due to decreased Alberta oil Crown royalties from lower rates as the result of lower realized oil prices. Cash flow from operations also increased due to a reduced current income tax provision and an increase in non-cash working capital.

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 June 30, 2023 was 1.2 to 1 times (versus 0.8 to 1 times at December 31, 2022). The increase in Bonterra's net debt to cash flow ratio is primarily due to an increase in net debt due to the Company's front-loaded capital program in the first six months of 2023 and a decrease in cash flow from lower commodity prices. The net debt to cash flow ratio is expected to continue to improve in subsequent quarters due to the Company's focus on debt reduction paired with increased production, reduced capital spending in the second half of the year and future cash flow protection from having approximately 30 percent of Bonterra's forecasted oil and natural gas production hedged over the next nine months.

Working Capital Deficiency and Net Debt

($ 000s)	**June 30, 2023**	March 31, 2023	December 31, 2022	June 30, 2022
Working capital deficiency	**20,248**	53,889	12,578	4,060
Bank debt	**35,506**	12,388	17,601	111,476
Subordinated debt	**-**	-	-	47,261
Subordinated debentures	**51,090**	51,708	49,770	48,487
Subordinated term debt (long-term portion)	**61,500**	65,689	69,882	-
Net Debt	**168,344**	183,674	149,831	211,284

Net debt is a combination of bank debt, subordinated debentures, subordinated term debt and working capital. The Company's Bank Facility has a maturity date of April 30, 2025 and is recorded as a long-term liability at June 30, 2023 and December 31, 2022. Included in working capital deficiency is $19.0 million of principal payments on the Subordinated Term Debt loan. Bonterra actively monitors its credit availability and working capital to ensure that it has sufficient available funds to meet its financial requirements as they come due. Any of these events present risks that could affect Bonterra's ability to fund ongoing operations. If required, Bonterra will also consider short-term or long-term financing alternatives to meet its future liabilities.

Net debt at June 30, 2023 decreased by $42.9 million compared to June 30, 2022, primarily due to increased cash flow resulting from comparatively higher commodity prices and production volumes. The Company intends to continue its focus on net debt reduction.

Working capital is calculated as current assets less current liabilities.

Financial Risk Management

Bonterra is exposed to market risk for the oil and gas produced by the Company. External factors beyond the Company's control may affect the marketability of oil and gas produced. Oil prices are affected by worldwide supply and demand fundamentals and access to market, while natural gas prices are largely affected by North American supply and demand fundamentals. To manage commodity risk, the Company executed physical delivery sales contracts which are considered normal sales contracts and are not recorded at fair value in the financial statements, and also executed risk management contracts which are not considered normal sales contracts and are recorded at fair value. The Company has contracts in place on approximately 30 percent of its estimated oil and gas production to the end of Q1 2024. The Company relies on its cash flow, access to equity markets and bank financing to support its operations and capital program. Bonterra uses these futures contracts to hedge its exposure to the potential adverse impact of commodity price volatility and provide a measure of stability to the Company's capital development program. For more information on physical delivery and risk management contracts in place, see Note 11 of the June 30, 2023 condensed financial statements.

Capital Expenditures

During the six months ended June 30, 2023, the Company incurred capital expenditures of $76.3 million (June 30, 2022 - $46.7 million). Of the total capital invested, $63.0 million was directed to the drilling of 26 gross (24.6 net) operated wells and the completion, equip and tie-in of 22 gross (20.6 net) operated wells. The remaining four gross (4.0 net) operated wells were placed on production in the third quarter of 2023. The Company also spent $3.7 million on expanding a wholly owned gas plant and an additional $9.6 million was spent primarily on related infrastructure, recompletions and non-operated capital programs.

Decommissioning Liabilities

The Company spent $5.2 million on decommissioning activities in during the six months ended June 30, 2023 including Alberta SRP funding. Since the beginning of 2020, Bonterra successfully abandoned 547.6 net wells, 347 pipelines and six facilities.

Bank Debt and Subordinated Term Debt

Bank debt represents the outstanding amounts drawn on the Company's Bank Facility. As at June 30, 2023, the Company has a total Bank Facility of $110.0 million, comprised of a $85.0 million syndicated revolving credit facility and a $25.0 million non-syndicated revolving facility. The amount drawn under the total Bank Facility at June 30, 2023 was $35.5 million (December 31, 2022 - $17.6 million). The amounts borrowed under the total Bank Facility bear interest at a floating rate based on the applicable Canadian prime rate or Banker's Acceptance rate, plus between 2.00 percent and 7.00 percent, depending on the type of borrowing and the Company's consolidated debt to EBITDA ratio. EBITDA is defined as net income for the period excluding finance costs, provision for current and deferred taxes, depletion and depreciation, share-option compensation, gain or loss on sale of assets and impairment of assets. As at June 30, 2023, the terms of the total revolving Bank Facility provided that the loan facility was revolving to April 30, 2024, with a maturity date of April 30, 2025, with no set terms of repayment on the credit facility.

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

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

Facility consists of various floating demand debentures totaling $750 million (December 31, 2021 - $750 million) over all of the Company's assets and a general security agreement with first ranking over all personal and real property.

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

The amount drawn under the Subordinated Term Debt at June 30, 2023 was $85.5 million (December 31, 2022 - $95.0 million). Based on the calculated fair value of the debt as at June 30, 2023, the effective interest rate was determined to be 16.2 percent, by discounting future payments of interest and principal with the residual value allocated to issue costs. The value of the debt will accrete up to the principal balance at maturity.

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

Financial Covenants

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

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

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

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

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

Shareholders' Equity

The Company is authorized to issue an unlimited number of common shares without nominal or par value.

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

Issued and fully paid - common shares	**Number**	**Amount ($ 000s)**
Balance, December 31, 2022	**36,912,892**	**781,679**
Issued pursuant to the Company's share option plan	**331,575**	**595**
Transfer from contributed surplus to share capital		**902**
Balance, June 30, 2023	**37,244,467**	**783,176**

A total of 2,753,000 Warrants are outstanding as at June 30, 2023, entitling the holder to purchase one Common Share of Bonterra for each Warrant at a price of $7.75, until October 20, 2025.

The Company provides a stock option plan for its directors, officers and employees. Under the plan, the Company may grant options for up to 3,724,447 (December 31, 2022 – 3,691,289) common shares. The exercise price of each option granted will not be lower than the market price of the common shares on the date of grant and the option's maximum term is five years.

For additional information regarding warrants and options outstanding, see Note 8 of the June 30, 2023, condensed financial statements.

Quarterly Financial Information

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

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

The fluctuations in the Company's revenue and net earnings from quarter-to-quarter are caused by variations in production volumes, realized commodity pricing and the related impact on royalties, production, G&A and finance costs. Net earnings in Q2 2021 were significantly higher than other quarters due to an impairment reversal on the Company's Alberta CGU from a previous impairment provision taken during the COVID-19 pandemic. More recent quarters' results have also been positively affected by the rise in oil and natural gas prices.

Contractual Obligations and Commitments

At June 30, 2023, Bonterra's total contractual obligations and commitments were $260,719,000. These include obligations and commitments in place as of December 31, 2022, changes in accrued interest in the period, as well as additional firm service commitments entered into during the six months ended June 30, 2023. For more information, refer to Note 12 "Commitments and Financial Liabilities" of the June 30, 2023 condensed financial statements.

Off-Balance Sheet Financing

Bonterra does not have any guarantees or off-balance sheet arrangements that have been excluded from the annual statement of financial position or balance sheet other than commitments disclosed in Note 12 of the June 30, 2023 condensed financial statements.

Critical Accounting Estimates

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

Assessment of Business Risk

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

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

Additional information regarding risk factors including, but not limited to, business risks is available in the Company's Annual Information Form for the year ended December 31, 2022, which can be accessed on its website www.bonterraenergy.com or on SEDAR at www.sedar.com.

Environmental Risk

General Risks

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

Climate Change Risks

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

Additional information regarding risk factors including, but not limited to, environmental risks is available in the Company's Annual Information Form for the year ended December 31, 2022, which can be accessed on its website at www.bonterraenergy.com or on SEDAR at www.sedar.com.

Forward-Looking Information

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

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

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

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

Internal Controls Over Financial Reporting

The Company is required to comply with National Instrument 52-109 “Certification of Disclosure in Issuers’ Annual and Interim Filings.” The certification of interim filings for the interim period ended June 30, 2023 requires that Bonterra disclose in the interim MD&A any changes in the Company’s internal control over financial reporting that occurred during the period that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting. Bonterra confirms that no such changes were made to its internal controls over financial reporting during the six months ended June 30, 2023.

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	June 30, 2023	December 31, 2022
Assets			
Current			
Accounts receivable		**27,117**	27,326
Crude oil inventory		**927**	1,106
Prepaid expenses		**8,974**	7,208
Investment tax credit receivable		**-**	5,761
Risk management contract	11	**1,006**	798
Investments		**1,711**	2,028
		39,735	44,227
Exploration and evaluation assets		**5,048**	4,563
Property, plant and equipment	3	**917,238**	870,892
		962,021	919,682
Liabilities			
Current			
Accounts payable and accrued liabilities		**40,027**	35,573
Subordinated term debt	6	**19,000**	20,193
Deferred consideration		**956**	1,039
		59,983	56,805
Bank debt	4	**35,506**	17,601
Subordinated debentures	5	**51,090**	49,770
Subordinated term debt	6	**61,500**	69,882
Deferred consideration		**8,631**	9,051
Decommissioning liabilities		**120,773**	109,215
Deferred tax liability	7	**126,089**	127,519
		463,572	439,843
Shareholders' equity			
Share capital	8	**783,176**	781,679
Contributed surplus		**32,614**	31,705
Warrants	8	**6,053**	6,053
Accumulated other comprehensive income		**504**	784
Deficit		**(323,898)**	(340,382)
		498,449	479,839
		962,021	919,682

Commitments and contingencies	12
Subsequent events	11

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the periods ended June 30 (unaudited)		Three months		Six months	
($ 000s, except $ per share)	Note	**2023**	2022	**2023**	2022
Revenue					
Oil and gas sales, net of royalties	9	**66,714**	98,714	**130,374**	179,596
Other income		**171**	1,200	**1,125**	1,993
Deferred consideration		**253**	309	**503**	604
Gain (loss) on risk management contracts	11	**(94)**	(2,361)	**1,301**	(17,965)
		67,044	97,862	**133,303**	164,228
Expenses					
Production		**21,367**	21,153	**42,617**	41,768
Office and administration		**1,887**	1,304	**2,810**	2,516
Employee compensation		**1,563**	2,610	**3,446**	4,305
Finance costs	10	**7,227**	5,021	**14,517**	10,214
Share-option compensation		**702**	479	**1,811**	753
Depletion and depreciation	3	**22,607**	22,791	**44,424**	45,325
		55,353	53,358	**109,625**	104,881
Earnings before income taxes		**11,691**	44,504	**23,678**	59,347
Taxes					
Current income tax expense	7	**3,462**	2,205	**8,588**	2,205
Deferred income tax expense (recovery)	7	**(615)**	8,755	**(1,394)**	13,079
		2,847	10,960	**7,194**	15,284
Net earnings for the period		**8,844**	33,544	**16,484**	44,063
Other comprehensive income					
Unrealized gain (loss) on investments		**120**	349	**(317)**	894
Deferred taxes on unrealized (gain) loss on investments		**(14)**	(40)	**37**	(103)
Other comprehensive income for the period		**106**	309	**(280)**	791
Total comprehensive income for the period		**8,950**	33,853	**16,204**	44,854
Net earnings per share - basic	8	**0.24**	0.93	**0.44**	1.24
Net earnings per share - diluted	8	**0.24**	0.88	**0.44**	1.17
Comprehensive income per share - basic	8	**0.24**	0.94	**0.44**	1.26
Comprehensive income per share - diluted	8	**0.24**	0.89	**0.43**	1.19

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF CASH FLOW

For the periods ended June 30 (unaudited)		Three months		Six months	
($ 000s)	Note	**2023**	2022	**2023**	2022
Operating activities					
Net earnings		**8,844**	33,544	**16,484**	44,063
Items not affecting cash					
Deferred income tax expense (recovery)		**(615)**	8,755	**(1,394)**	13,079
Share-option compensation		**702**	479	**1,811**	753
Investment income		**(117)**	(42)	**(216)**	(56)
Finance costs	10	**7,227**	5,021	**14,517**	10,214
Unrealized (gain) loss on risk management contracts	11	**1,298**	(3,675)	**(208)**	5,435
Deferred consideration		**(253)**	(309)	**(503)**	(604)
Depletion and depreciation	3	**22,607**	22,791	**44,424**	45,325
Government grant in-kind	13	**-**	(937)	**(782)**	(1,612)
Decommissioning expenditures		**(933)**	(2,122)	**(4,398)**	(3,171)
Interest paid	10	**(6,338)**	(5,111)	**(10,208)**	(7,675)
Changes in non-cash working capital accounts	10	**1,432**	(87)	**(1,655)**	(6,502)
Cash provided by operating activities		**33,854**	58,307	**57,872**	99,249
Financing activities					
Increase (decrease) of bank debt		**23,118**	(26,908)	**17,905**	(51,469)
Decrease of subordinated term debt	6	**(4,750)**	-	**(10,693)**	-
Proceeds from warrants exercised	5	**-**	3,069	**-**	4,270
Stock option proceeds		**35**	104	**595**	757
Cash provided by (used in) financing activities		**18,403**	(23,735)	**7,807**	(46,442)
Investing activities					
Investment income received		**117**	42	**216**	56
Exploration and evaluation expenditures		**-**	(438)	**(484)**	(445)
Property, plant and equipment expenditures	3	**(16,116)**	(14,068)	**(75,855)**	(46,230)
Changes in non-cash working capital accounts	10	**(36,258)**	(20,108)	**10,444**	(6,188)
Cash used in investing activities		**(52,257)**	(34,572)	**(65,679)**	(52,807)
Net change in cash in the period		**-**	**-**	**-**	**-**
Cash, beginning of period		-	-	-	-
Cash, end of period		**-**	-	**-**	-
The following are included in cash flow from operating activities:					
Income taxes paid		**1,177**	-	**7,065**	-

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, 2022	35,000,952	772,781	31,599	7,265	(221)	(419,405)	392,019
Share-option compensation			753				753
Exercise of options	601,282	757					757
Transfer to share capital on exercise of options		502	(502)				-
Exercise of warrants	551,000	4,270					4,270
Transfer to share capital on exercise of warrants		1,212		(1,212)			-
Comprehensive income					791	44,063	44,854
June 30, 2022	36,153,234	779,522	31,850	6,053	570	(375,342)	442,653
Share-option compensation			1,157				1,157
Exercise of options	759,658	855					855
Transfer to share capital on exercise of options		1,302	(1,302)				-
Comprehensive income					214	34,960	35,174
December 31, 2022	36,912,892	781,679	31,705	6,053	784	(340,382)	479,839
Share-option compensation			1,811				1,811
Exercise of options	331,575	595					595
Transfer to share capital on exercise of options		902	(902)				-
Comprehensive income (loss)					(280)	16,484	16,204
June 30, 2023	37,244,467	783,176	32,614	6,053	504	(323,898)	498,449

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

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

See accompanying notes to these condensed financial statements.

NOTES TO THE FINANCIAL STATEMENTS

As at June 30, 2023 and December 31, 2022 and for the three and six months ended June 30, 2023 and June 30, 2022 (unaudited).

1. NATURE OF BUSINESS AND SEGMENT INFORMATION

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

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

The financial statements were authorized for issue by the Company's Board of Directors on August 10, 2023.

2. BASIS OF PREPARATION AND FUTURE OPERATIONS

a) Statement of Compliance

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

The accounting policies and method of computation followed in the preparation of the condensed financial statements are the same as those followed in the preparation of Bonterra's 2022 audited annual financial statements, except as denoted below. These condensed financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the 2022 audited annual financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

b) Adopted Accounting Pronouncements

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

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

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

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

c) Future Accounting Pronouncements

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

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

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

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

3. PROPERTY, PLANT AND EQUIPMENT

Cost ($ 000s)	**Oil and gas properties**	**Production facilities**	**Furniture fixtures & other equipment**	**Total property plant & equipment**
Balance at December 31, 2022	1,542,394	415,183	2,461	1,960,038
Additions	55,500	20,115	240	75,855
Adjustment to decommissioning liabilities	14,872	-	-	14,872
Balance at June 30, 2023	**1,612,766**	**435,298**	**2,701**	**2,050,765**

Accumulated depletion and depreciation ($ 000s)	**Oil and gas properties**	**Production facilities**	**Furniture fixtures & other equipment**	**Total property plant & equipment**
Balance at December 31, 2022	(889,826)	(197,318)	(2,002)	(1,089,146)
Depletion and depreciation	(36,072)	(8,304)	(48)	(44,424)
Disposal and other	43	-	-	43
Balance at June 30, 2023	**(925,855)**	**(205,622)**	**(2,050)**	**(1,133,527)**

Carrying amounts as at: ($ 000s)				
December 31, 2022	652,568	217,865	459	870,892
June 30, 2023	**686,911**	**229,676**	**651**	**917,238**

Impairment

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

4. BANK DEBT

As at June 30, 2023, the Company had a total Bank Facility of $110,000,000 (December 31, 2022 - $110,000,000), comprised of a $85,000,000 syndicated revolving credit facility, and a $25,000,000 non-syndicated revolving credit facility. The amount drawn under the total Bank Facility at June 30, 2023 was $35,506,000 (December 31, 2022 - $17,601,000). The amounts borrowed under the total Bank Facility bear interest at a floating rate based on the applicable Canadian prime rate or Banker's Acceptance rate, plus between 2.00 percent and 7.00 percent, depending on the type of borrowing and the Company's consolidated debt to EBITDA ratio. EBITDA is defined as net income for the twelve month trailing period excluding finance costs, provision for current and deferred taxes, depletion and depreciation, share-option compensation, gain or loss on sale of assets and impairment of assets. As at June 30, 2023, the terms of the total revolving Bank Facility provided that the loan facility was revolving to April 30, 2024, with a maturity date of April 30, 2025, with no set terms of repayment on the credit facility.

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

Financial Covenants

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

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

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

As at June 30, 2023, Bonterra was in compliance with all financial covenants on its Bank Facility.

5. SUBORDINATED DEBENTURES

As at June 30, 2023 the Company has a total of 59,000 senior unsecured subordinated debenture units outstanding. Each Unit is comprised of: (i) one senior unsecured debenture with a par value of $1,000 per note and bearing interest at 9.0 percent per annum, payable semi-annually; and (ii) 56 common share purchase warrants of Bonterra ("Warrants"). The debentures mature on October 20, 2025 and all or a portion of the principal amount outstanding can be repaid without penalty after October 20, 2024, however, all interest due to the maturity date must be paid. A total of 3,304,000 Warrants were issued, entitling the holder to purchase one common share of Bonterra for each Warrant at a price of $7.75, until October 20, 2025. In the first six months of 2023, $2,655,000 (June 30, 2022 - $2,655,000) of interest was paid.

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

6. SUBORDINATED TERM DEBT

As at June 30, 2023 the Company has a second lien, non-revolving subordinated term debt facility ("Subordinated Term Debt"). The amount drawn under the Subordinated Term Debt at June 30, 2023 was $85,500,000 (December 31, 2022 - $95,000,000). The amounts borrowed under the Subordinated Term Debt bear interest at a fixed rate of 11.70 percent to be applied to 25 percent of the term facility principle and a floating interest rate of Canadian Prime Rate plus 6.25 percent on the remaining 75 percent of the principal amount. The Company is required to make mandatory principal repayments equal to $4.75 million, payable on the last banking day of February, May, August and November of each calendar year, commencing on February 28, 2023. The term debt has a maturity date of November 30, 2026 on which the remaining outstanding principle balance is to be paid.

Based on the calculated fair value of the Subordinated Term Debt as at June 30, 2023, the effective interest rate was determined to be 16.2 percent using the effective interest rate method. The effective interest rate was calculated by discounting future payments of interest and principal with the residual value allocated to issue costs of $6,310,000. The value of the debt will accrete up to the principal balance at maturity. Interest paid in 2023 was $5,702,000 (June 30, 2022 - $Nil).

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

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

7. INCOME TAXES

($ 000s)	**June 30, 2023**	December 31, 2022
Deferred tax asset (liability) related to:		
Investments	**(83)**	(120)
Exploration and evaluation assets and property, plant and equipment	**(147,611)**	(145,019)
Investment tax credits	**(980)**	(2,040)
Decommissioning liabilities	**28,358**	25,700
Share issue costs	**1,355**	1,566
Financial derivative	**(231)**	(184)
Subordinated debenture	**(1,820)**	(2,125)
Subordinated term debt	**(1,151)**	(1,408)
Corporate capital tax losses carried forward	**7,448**	7,449
Unrecorded benefits of capital tax losses carried forward	**(7,365)**	(7,329)
Unrecorded benefits of successored resource related pools	**(4,009)**	(4,009)
Deferred tax asset (liability)	**(126,089)**	(127,519)

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

	Three Months		Six Months	
($ 000s)	**June 30, 2023**	June 30, 2022	**June 30, 2023**	June 30, 2022
Earnings before taxes	**11,691**	44,504	**23,678**	59,347
Combined federal and provincial income tax rates	**23.03%**	23.03%	**23.03%**	23.03%
Income tax provision calculated using statutory tax rates	**2,692**	10,249	**5,453**	13,668
Increase (decrease) in taxes resulting from:				
Share-option compensation	**162**	110	**417**	173
Amendment of prior period tax return	**-**	-	**1,319**	-
Renouncement of tax pool on flow through share issuance	**-**	-	**-**	1,257
Change in unrecorded benefits of tax pools	**(13)**	49	**36**	(44)
Change in estimates and other	**6**	552	**(31)**	230
	2,847	10,960	**7,194**	15,284

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	69,187
Share issue costs	20	5,888
Canadian oil and gas property expenditures	10	63,556
Canadian development expenditures	30	126,638
Canadian exploration expenditures	100	8,587
		273,856

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

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

8. SHAREHOLDERS' EQUITY

Authorized

The Company is authorized to issue an unlimited number of common shares without nominal or par value.

Issued and fully paid - common shares	Number	Amount ($ 000s)
Balance, December 31, 2022	**36,912,892**	**781,679**
Issued pursuant to the Company's share option plan	**331,575**	**595**
Transfer from contributed surplus to share capital		**902**
Balance, June 30, 2023	**37,244,467**	**783,176**

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

The weighted average common shares used to calculate basic and diluted net earnings per share for the six months ended June 30, 2023, are as follows:

	Three Months		Six Months	
	2023	2022	**2023**	2022
Basic shares outstanding	**37,217,538**	35,997,199	**37,148,164**	35,589,564
Dilutive effect of share options and warrants [1]	**116,178**	2,146,375	**168,407**	2,053,483
Diluted shares outstanding	**37,333,716**	38,143,574	**37,316,571**	37,643,047

(1) The Company did not include 4,983,500 share-options and warrants for the three months ended June 30, 2023 (June 30, 2022 – 699,350) and 4,983,500 share-options and warrants for the six months ended June 30, 2023 (June 30, 2022 – 1,020,000) 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 June 30, 2023 and changes during the period are presented below:

	Number of warrants	Weighted exercise price
At December 31, 2022 and June 30, 2023	2,753,000	$7.75

The Warrants issued entitle the holder to purchase one Common Share of Bonterra for each Warrant at a price of $7.75, until October 20, 2025.

Options

The Company provides an equity settled option plan for its directors, officers, and employees. Under the plan, the Company may grant options for up to 3,724,447 (December 31, 2022 – 3,691,289 common shares). The exercise price of each option granted cannot be lower than the market price of the common shares on the date of grant and the option's maximum term is five years.

A summary of the status of the Company's stock options as of June 30, 2023 and changes during the period are presented below:

	Number of options	Weighted average exercise price
At December 31, 2022	2,751,750	$6.86
Options granted	179,000	6.54
Options exercised[(1)]	(434,250)	2.95
Options forfeited	(5,000)	8.13
Options expired	(15,000)	5.63
At June 30, 2023	2,476,500	$7.52

(1) 234,500 options were exercised under the cashless option method, which resulted in 131,825 shares being issued in which the Company received no proceeds. Under the cashless option method, the remaining options between the number of options exercised and shares issued are cancelled.

The following table summarizes information about options outstanding and exercisable as at June 30, 2023:

	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	241,000	1.1 years	$ 3.49	137,500	$ 2.72
5.01 - 10.00	2,190,500	4.1 years	7.87	324,650	8.95
10.01 - 15.00	45,000	1.9 years	12.32	15,000	12.32
$ 1.00 - $ 15.00	2,476,500	3.7 years	$ 7.52	477,150	$ 7.26

The Company records compensation expense over the vesting period, which ranges between one and three years, based on the fair value of options granted to directors, officers and employees. In 2023, the Company granted 179,000 options with an estimated fair value of $413,000 or $2.31 per option using the Black-Scholes option pricing model with the following key assumptions:

	June 30, 2023
Weighted-average risk free interest rate (%)[(1)]	**3.67**
Weighted-average expected life (years)	**2.0**
Weighted-average volatility (%)[(2)]	**66.68**
Forfeiture rate (%)	**6.81**
Weighted average dividend yield (%)	**1.87**

(1) Risk-free interest rate is based on the weighted average Government of Canada benchmark bond yields for one, two, and three year terms to match corresponding vesting periods.

(2) The expected volatility is measured as the standard deviation of expected share price returns based on statistical analysis of historical weekly share prices for a representative period.

9. OIL AND GAS SALES, NET OF ROYALTIES

($ 000s)	Three months June 30, 2023	Three months June 30, 2022	Six months June 30, 2023	Six months June 30, 2022
Oil and gas sales				
Crude oil	**61,770**	88,080	**122,653**	161,176
Natural gas liquids	**4,993**	8,086	**10,661**	13,738
Natural gas	**8,843**	20,508	**19,555**	33,302
	75,606	116,674	**152,869**	208,216
Less royalties:				
Crown	**(6,157)**	(12,673)	**(16,123)**	(19,363)
Freehold, gross overriding royalties and other	**(2,735)**	(5,287)	**(6,372)**	(9,257)
	(8,892)	(17,960)	**(22,495)**	(28,620)
Oil and gas sales, net of royalties	**66,714**	98,714	**130,374**	179,596

10. SUPPLEMENTAL CASH FLOW INFORMATION

($ 000s)	Three months June 30, 2023	Three months June 30, 2022	Six months June 30, 2023	Six months June 30, 2022
Change in non-cash working capital:				
Accounts receivable	**2,877**	(1,623)	**209**	(14,182)
Crude oil inventory	**91**	(40)	**137**	(103)
Prepaid expenses	**(3,225)**	(1,056)	**(1,766)**	(1,337)
Investment tax credit receivable	**1,960**	-	**5,761**	-
Abandonment deposit	**(3)**	(2,118)	**(6)**	(2,118)
Accounts payable and accrued liabilities	**(36,526)**	(15,358)	**4,454**	5,050
	(34,826)	(20,195)	**8,789**	(12,690)
Changes related to:				
Operating activities	**1,432**	(87)	**(1,655)**	(6,502)
Investing activities	**(36,258)**	(20,108)	**10,444**	(6,188)
	(34,826)	(20,195)	**8,789**	(12,690)

Finance expense

($ 000s)	Three months June 30, 2023	Three months June 30, 2022	Six months June 30, 2023	Six months June 30, 2022
Interest expense:				
Bank and subordinated debt	**879**	2,450	**1,851**	5,014
Subordinated debenture	**1,327**	1,327	**2,655**	2,655
Subordinated term debt	**2,804**	-	**5,702**	-
	5,010	3,777	**10,208**	7,669
Accretion:				
Decommissioning liabilities	**947**	634	**1,871**	1,418
Subordinated debentures	**709**	610	**1,320**	1,127
Subordinated term debt	**561**	-	**1,118**	-
	2,217	1,244	**4,309**	2,545
Total finance costs	**7,227**	5,021	**14,517**	10,214
Interest expense	**5,010**	3,777	**10,208**	7,669
Interest accrued	**1,328**	1,334	**-**	6
Interest paid	**6,338**	5,111	**10,208**	7,675

11. FINANCIAL RISK MANAGEMENT

Financial Risk Factors

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

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

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

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

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

Liquidity Risk Management

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

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

Credit Risk

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

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

- Agreements for product sales are primarily on 30-day renewal terms. Of the $27,117,000 accounts receivable balance at June 30, 2023 (December 31, 2022 - $27,326,000) over 83 percent (December 31, 2022 – 93 percent) relate to product sales or risk management contracts with national and international banks and oil and gas companies.

On a quarterly basis, Bonterra assesses if there has been any impairment of the financial assets of the Company. During the three and six months ended June 30, 2023, there was no material impairment provision required on any of the financial assets of the Company. Bonterra does have credit risk exposure, as the majority of the Company's accounts receivable are with counterparties having similar characteristics. However, payments from the Company's largest accounts receivable counterparties have consistently been received within 30 days and the sales agreements with these parties are cancellable with 30 days' notice if payments are not received.

As at June 30, 2023, approximately $347,000 or 1.4 percent of the Company's total accounts receivable are aged over 90 days and considered past due (December 31, 2022 - $262,000 or 1.1 percent). The majority of these accounts are due from various joint venture partners. The Company actively monitors past due accounts and takes the necessary actions to expedite collection, which can include withholding production or netting payables when the accounts are with joint venture partners. Should the Company determine that the ultimate collection of a receivable is in doubt, it will provide the necessary provision in its allowance for doubtful accounts with a corresponding charge to earnings. If the Company subsequently determines an account is uncollectable, the account is written off with a corresponding charge to the allowance account. The Company's allowance for doubtful accounts balance at June 30, 2023 is $1,593,000 (December 31, 2022 - $1,248,000) with the expense being included in general and administrative expenses. There were no material accounts written off during the period.

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

Capital Risk Management

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

The Company monitors capital based on the ratio of net debt (total debt adjusted for working capital) to cash flow from operating activities. This ratio is calculated using each quarter end net debt divided by the preceding twelve months' cash flow. At June 30, 2023, the Company had a net debt to cash flow level of 1.2:1 compared to 0.8:1 as at December 31, 2022. The increase in Bonterra's net debt to cash flow ratio is primarily due to an increase in net debt due to the Company's front-loaded capital program and a decrease in cash flow from lower commodity prices. The net debt to cash flow ratio is expected to continue to improve in subsequent quarters due to the Company's focus on debt reduction paired with increased production, reduced capital spending in the second half of the year and future cash flow protection from having approximately 30 percent of Bonterra's forecasted oil and natural gas production hedged over the next nine months.

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

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

a) Net debt to cash flow ratio

The net debt and cash flow amounts are as follows:

($ 000s)	**June 30, 2023**	December 31, 2022
Bank debt	**35,506**	17,601
Subordinated debentures	**51,090**	49,770
Subordinated term debt[(1)]	**61,500**	69,882
Current liabilities	**59,983**	56,805
Current assets	**(39,735)**	(44,227)
Net debt	**168,344**	149,831
Cash flow from operations (trailing twelve months)	**142,176**	183,553
Net debt to cash flow ratio	**1.2**	0.8

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

b) Risks and mitigation

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

Commodity Price Risk

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

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

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

Physical Delivery Sales Contracts

Bonterra enters into physical delivery sales contracts to manage commodity price risk. These contracts are considered normal executory sales contracts and are not recorded at fair value in the financial statements. As of June 30, 2023, the Company has the following physical delivery sales contracts in place.

Product	Type of contract	Volume	Term			Contract price ($)			
Gas	Fixed Price - AECO Daily[(1)]	4,000 GJ/day	Jul 1, 2023	to	Sep 30, 2023			3.85	CAD/GJ
Gas	Fixed Price - AECO Daily[(1)]	2,500 GJ/day	Jul 1, 2023	to	Oct 31, 2023			2.55	CAD/GJ
Gas	Physical collar - AECO Monthly[(2)]	5,000 GJ/day	Oct 1, 2023	to	Dec 31, 2023	2.75	to	3.75	CAD/GJ
Gas	Physical collar - AECO Monthly[(2)]	5,000 GJ/day	Jan 1, 2024	to	Mar 31, 2024	2.75	to	3.45	CAD/GJ

(1) "AECO Daily" refers to a grade or heating content of natural gas used as daily index benchmark pricing in Alberta, Canada.
(2) "AECO Monthly" refers to a grade or heating content of natural gas used as monthly index benchmark pricing in Alberta, Canada.

Risk Management Contracts

($ 000s)	Three months June 30, 2023	Three months June 30, 2022	Six months June 30, 2023	Six months June 30, 2022
Risk management contracts				
Realized gain (loss)	**1,204**	(6,036)	**1,093**	(12,530)
Unrealized gain (loss)	**(1,298)**	3,675	**208**	(5,435)
	(94)	(2,361)	**1,301**	(17,965)

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 June 30, 2023.

Product	Type of contract	Volume	Term			Contract price ($)			
Oil	Financial collar - WTI[1]	500 BBL/day	Jul 1, 2023	to	Sep 30, 2023	70.00	to	95.00	USD/BBL
Oil	Financial collar - WTI[1]	500 BBL/day	Jul 1, 2023	to	Sep 30, 2023	70.00	to	98.65	USD/BBL
Oil	Financial collar - WTI[1]	500 BBL/day	Jul 1, 2023	to	Sep 30, 2023	50.00	to	95.25	USD/BBL
Oil	Financial collar - WTI[1]	600 BBL/day	Jul 1, 2023	to	Sep 30, 2023	50.00	to	98.00	USD/BBL
Oil	Financial collar - WTI[1]	500 BBL/day	Oct 1, 2023	to	Dec 31, 2023	60.00	to	86.75	USD/BBL
Oil	Financial collar - WTI[1]	500 BBL/day	Oct 1, 2023	to	Dec 31, 2023	60.00	to	90.00	USD/BBL
Oil	Financial collar - WTI[1]	600 BBL/day	Oct 1, 2023	to	Dec 31, 2023	50.00	to	89.60	USD/BBL
Oil	Financial collar - WTI[1]	600 BBL/day	Oct 1, 2023	to	Dec 31, 2023	50.00	to	93.00	USD/BBL
Oil	Financial collar - WTI[1]	500 BBL/day	Jan 1, 2024	to	Mar 31, 2024	50.00	to	88.25	USD/BBL
Oil	Financial collar - WTI[1]	500 BBL/day	Jan 1, 2024	to	Mar 31, 2024	50.00	to	84.85	USD/BBL
Oil	Financial collar - WTI[1]	500 BBL/day	Jan 1, 2024	to	Mar 31, 2024	50.00	to	85.00	USD/BBL
Oil	Financial collar - WTI[1]	300 BBL/day	Jan 1, 2024	to	Mar 31, 2024	50.00	to	85.50	USD/BBL
Oil	Financial collar - WTI[1]	500 BBL/day	Jan 1, 2024	to	Mar 31, 2024	50.00	to	85.60	USD/BBL
Oil	Fixed price - MSW differential[2][3]	500 BBL/day	Jul 1, 2023	to	Sep 30, 2023			(3.80)	USD/BBL
Gas	Financial collar - AECO Monthly	5,000 GJ/day	Jul 1, 2023	to	Sep 30, 2023	4.00	to	5.00	CAD/GJ
Gas	Financial collar - AECO Monthly	5,000 GJ/day	Oct 1, 2023	to	Dec 31, 2023	2.50	to	3.42	CAD/GJ
Gas	Financial collar - AECO Monthly	5,000 GJ/day	Jan 1, 2024	to	Mar 31, 2024	2.75	to	3.56	CAD/GJ

(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.

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

Product	Type of contract	Volume	Term			Contract price ($)			
Oil	Financial collar - WTI	500 BBL/day	Apr 1, 2024	to	Jun 30, 2024	60.00	to	93.35	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 June 30, 2023, the Company's debt facilities consist of a $85,000,000 syndicated revolving credit facility, and a $25,000,000 non-syndicated revolving credit facility, $85,500,000 second lien Subordinated Term Debt and $59,000,000 in senior unsecured subordinated debentures. The borrowings under the total bank facilities are at bank prime plus or minus various percentages as well as by means of banker's acceptances ("BAs") within the Company's credit facility. The subordinated debt has a fixed interest rate of 11.7 percent for a quarter of the outstanding balance and prime plus 6.25 percent for the remaining outstanding balance. Subordinated debentures are at a fixed interest rate of nine percent. The Company manages its exposure to interest rate risk on its floating interest rate debt through entering into various term lengths on its BAs but in no circumstances do the terms exceed six months.

Sensitivity Analysis

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

A one percent increase (decrease) in the Canadian prime rate would decrease (increase) both annual net earnings and comprehensive income by $767,000.

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	40,027	-	-	-	40,027
Bank debt	Yes - Liability	-	35,506	-	-	35,506
Subordinated debentures [1]	Yes - Liability	-	59,000	-	-	59,000
Subordinated term debt [1]	Yes - Liability	19,000	38,000	28,500	-	85,500
Future interest	No	15,177	19,463	1,380	-	36,020
Firm service commitments	No	998	1,354	707	1	3,060
Office lease commitments	No	443	978	185	-	1,606
Total		75,645	154,301	30,772	1	260,719

[1] Principal amount.

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

The Company also has non-cancellable office lease commitments for building and office equipment. The building and office equipment leases have an average remaining life of 3.6 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 $782,000 of asset retirement obligations as an in-kind grant (June 30, 2022 - $1,612,000). The benefit of the in-kind grant is recognized through other income.

Corporate Information

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

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

Registrar and Transfer Agent
Odyssey Trust Company

Auditors
Deloitte LLP

Solicitors
Borden Ladner Gervais LLP

Bankers
CIBC
ATB Financial
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