BONTERRA ENERGY REPORTS THIRD 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 **September 30, 2023**	September 30, 2022	Nine months ended **September 30, 2023**	September 30, 2022
FINANCIAL					
Revenue - realized oil and gas sales		**84,909**	88,827	**237,778**	297,043
Funds flow [(1)]		**42,722**	35,454	**106,863**	144,438
Per share - basic		**1.15**	0.98	**2.87**	4.04
Per share - diluted		**1.14**	0.95	**2.86**	3.87
Cash flow from operations		**37,715**	48,810	**95,587**	148,059
Per share - basic		**1.01**	1.35	**2.57**	4.14
Per share - diluted		**1.01**	1.30	**2.56**	3.96
Net earnings		**13,486**	17,696	**29,970**	61,759
Per share - basic		**0.36**	0.49	**0.81**	1.73
Per share - diluted		**0.36**	0.47	**0.80**	1.65
Capital expenditures		**36,130**	20,452	**112,469**	67,127
Total assets				**955,484**	948,259
Net debt[(2)]				**167,449**	187,128
Bank debt				**26,613**	74,524
Shareholders' equity				**512,479**	461,199
OPERATIONS					
Light oil	-barrels (bbl) per day	**7,177**	6,649	**7,176**	7,207
	-average price ($ per bbl)	**104.32**	111.44	**97.77**	116.57
NGLs	-bbl per day	**1,410**	1,206	**1,272**	1,119
	-average price ($ per bbl)	**49.19**	64.45	**49.08**	68.41
Conventional natural gas	- MCF per day	**34,241**	31,052	**32,669**	31,333
	- average price ($ per MCF)	**3.06**	4.73	**3.27**	5.47
Total barrels of oil equivalent per day (BOE)[(3)]		**14,294**	13,031	**13,893**	13,548

(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 proud to provide this stakeholder update designed to share highlights of the strong operating and financial results reported by Bonterra Energy Corp. ("Bonterra" or the "Company") during the three and nine-month periods ended September 30, 2023. Building on momentum realized by our team to date in 2023, Bonterra has achieved meaningful quarter-over-quarter increases in production, funds flow and earnings, all while continuing to reduce net debt.

For context, over the two-year period from Q3 2021 to Q3 2023, Bonterra achieved a net debt reduction of 46 percent (or $140.3 million), while successfully increasing production by 14 percent, clearly demonstrating the free funds flow capability of our Cardium asset base. Bonterra's production increased to 14,294 BOE per day in Q3 2023 and averaged 13,893 BOE per day for the nine months ended September 30, 2023, reflecting the impact of numerous wells outperforming type curve estimates.

In order to capture the benefit of stronger oil prices and higher production volumes during the period, Bonterra's operational team continued to focus on cost control and execution efficiency to help optimize netbacks. With a realized price per BOE of $64.57, our field netbacks averaged $40.38 per BOE, or 10 percent higher than the previous quarter, reflecting our successful operations combined with lower per unit production costs.

Quarter over Quarter Financial & Operating Snapshot

I am extremely pleased with the metrics Bonterra recorded during the third quarter of 2023:

- Production averaged **14,294 BOE per day**, three percent higher than the previous quarter;
- Funds flow totaled **$42.7 million ($1.14 per fully diluted share**), 23 percent higher than the previous quarter;
- Generated **$6.6 million of free funds flow**, which was allocated to debt reduction;
- Net earnings totaled **$13.5 million ($0.36 per diluted share**), an increase of 52 percent over the previous quarter; and
- Net debt declined one percent compared to June 30, 2023 to $167.4 million, with **bank debt decreasing 25 percent**, reflecting the impact of a streamlined capital program combined with increased production levels and strong cash flow.

Efficient Capital Program Underpins Continued Growth

Bonterra's capital expenditures in 2023 have been front-end loaded and totaled $112.5 million to date, of which $36.2 million was invested during the third quarter. This includes $27.5 million which was directed to drill 12 gross (11.8 net) operated wells and the completion, equip and tie-in of 13 gross (13.0 net) operated wells targeting high-quality, light-oil weighted locations, and other incremental growth initiatives.

As a result of our ongoing capital efficient execution, combined with exceptional Cardium drilling results, we anticipate that Bonterra's annual production for 2023 will exceed the top end of our guidance range, while spending is anticipated to be at the high end of our guided capital of $120 to $125 million. Further, this capital range will include approximately $8 million that the Company allocated to the successful drilling and completion of our first Montney well, which was not contemplated within the original 2023 budget, demonstrating our ability to exceed production forecasts while under-spending on capital.

Bonterra's first Montney well was successfully drilled in Q3 2023. The Montney well was completed subsequent to quarter-end and is in the early stages of flow back with an extended flow test planned in 2024. The well was drilled and completed under budget and within our existing capital guidance. The horizontal multistage fracked well was drilled to a total measured depth of approximately 5,500 meters with a horizontal leg of 3,200 meters, and completed with 134 individual stages.

The Company elected to accelerate completion of the well in 2023 given the greater availability of services in Q4 2023 relative to Q1 2024, and our ability to capture significant savings in service costs by proceeding prior to industry's more active winter drilling period. We have not included any production impact from this well within our 2023 production guidance. We look forward to Bonterra's Montney Valhalla area providing greater optionality and an expanded potential development runway over the longer term.

Bonterra's Bold Future

While we are excited by the inherent opportunity we see in our Montney asset, and proud of the demonstrated free funds flow potential of our Cardium play, the Company has also assessed multiple mandates for new potential acquisitions. We intend to continue looking at accretive opportunities while exercising diligence and remaining prudent in our approach to pursue only those transactions that meet our stringent investment thresholds.

Bonterra has a proven history of returning capital to shareholders, and we remain committed to implementing a sustainable dividend model supported by our forecast free funds flow and strategic hedging program. Under such a return of capital framework, the Company expects to allocate up to 25 percent of free funds flow towards a base dividend, with the balance being directed to organic growth, continued debt repayment and the pursuit of acquisitions.

We have signaled that dividend triggers include a targeted net debt range of $135 to $145 million and a debt to EBITDA ratio of under one. Based on current strip commodity prices as well as our performance subsequent to the end of the third quarter, we believe Bonterra is positioned to achieve these targeted leverage metrics by the end of 2023. As a result, we expect to initiate returning capital to shareholders by commencing a dividend in the first quarter of 2024.

I want to extend my gratitude to our stakeholders, shareholders and employees for their unwavering support of, and belief in, Bonterra, and our committed Board of Directors for their valued oversight and guidance that will continue to propel us towards our successful future.

Patrick Oliver
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following report dated November 8, 2023 is a review of the operations and current financial position for the three and nine months ended September 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** Q3	2023 Q2	2023 Q1	2022 Q4	2022 Q3	2022 Q2	2022 Q1
Financial							
Revenue - oil and gas sales	**84,909**	75,606	77,263	87,154	88,827	116,674	91,542
Cash flow from operations	**37,715**	33,854	24,018	35,494	48,810	58,307	40,942
Per share - basic	**1.01**	0.91	0.65	0.97	1.35	1.62	1.16
Per share - diluted	**1.01**	0.91	0.64	0.95	1.30	1.53	1.11
Net earnings	**13,486**	8,844	7,640	17,264	17,696	33,544	10,519
Per share - basic	**0.36**	0.24	0.21	0.47	0.49	0.93	0.30
Per share - diluted	**0.36**	0.24	0.20	0.46	0.47	0.88	0.29
Capital expenditures	**36,130**	16,116	60,223	12,642	20,452	14,506	32,169
Total assets	**955,484**	962,021	963,890	919,682	948,259	934,303	965,969
Net debt	**167,449**	168,344	183,674	149,831	187,128	211,284	260,670
Shareholders' equity	**512,479**	498,449	488,762	479,839	461,199	442,653	405,148
Operations							
Light oil (barrels per day)	**7,177**	7,282	7,068	6,764	6,649	7,623	7,356
NGLs (barrels per day)	**1,410**	1,248	1,155	1,209	1,206	1,151	996
Conventional natural gas (MCF per day)	**34,241**	32,286	31,448	30,101	31,052	33,323	29,609
Total BOE per day	**14,294**	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	2021 Q3	2021 Q2	2021 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.

	Q3-2023	Q2-2023	Q1-2023	Q4-2022	Q3-2022	Q2-2022	Q1-2022	Q4-2021
Crude oil								
WTI (U.S.$/bbl)	**82.26**	73.78	76.13	82.64	91.56	108.41	94.29	77.19
WTI to MSW Stream Index								
Differential (U.S.$/bbl)[(1)]	**(1.83)**	(2.96)	(2.86)	(1.61)	(2.05)	(0.50)	(2.96)	(3.10)
Foreign exchange								
U.S.$ to Cdn$	**1.3410**	1.3431	1.3520	1.3578	1.3059	1.2766	1.2662	1.2601
Bonterra average realized								
oil price (Cdn$/bbl)	**104.32**	93.21	95.71	105.59	111.44	126.97	110.41	85.04
Natural gas								
AECO (Cdn$/mcf)	**2.58**	2.44	3.20	5.09	4.14	7.20	4.72	4.63
Bonterra average realized								
gas price (Cdn$/mcf)	**3.06**	3.01	3.78	5.36	4.73	6.76	4.80	4.93

(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 $82.26 USD per barrel in Q3 2023, a decrease of 10 percent compared to Q3 2022. The pricing decline for WTI throughout 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 slowly 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 ($1.83) USD per barrel in Q3 2023, an improvement of $0.22 from Q3 2022. Diminished inventories at the Cushing storage hub in Oklahoma have been the largest contributing factor in keeping the differential tight relative to historical levels. Seasonally lower refining demand for sweet crude oil combined with pipeline apportionment may weigh on the movement and pricing of MSW crude oil in the near term. Longer term however, 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 $2.58 per mcf in Q3 2023, a decrease of 38 percent over Q3 2022. The decrease is mainly due to looser supply and demand balances and elevated storage levels that began as a result of unexpected demand losses, and an unseasonably mild winter across much of North America. This negative pricing pressure has persisted as a result of 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 ($/bbl)	1.00	2,208	0.06
Realized natural gas price ($/mcf)	0.10	1,134	0.03
U.S.$ to Canadian $ exchange rate	0.01	1,700	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.

Production averaged 13,893 BOE per day in the first nine months of 2023, an increase of 345 BOE per day, or three percent, compared to the same period in 2022 and 1,263 BOE per day, or 10 percent comparing Q3 2023 to Q3 2022. The increase in production was due to the Company's successful capital program, which was partially offset by 333 BOE per day of shut-in production in Q2 2023 due to wildfires in central Alberta. The Company anticipates its annual average production will reach or exceed the upper limit of its 2023 guidance range of 13,500 to 13,700 BOE per day.

The Company remains focused on strengthening its debt profile while modestly growing production, with quarter end net debt decreasing by $16.3 million compared to Q1 2023. The Company plans on further reducing net debt by leveraging increased cash flow due to production growth combined with reduced capital expenditures compared to the first quarter of 2023.

Bonterra invested capital expenditures of $112.5 million in the first nine months of 2023. Of the total capital invested, $86.9 million was directed to the drilling of 38 gross (36.4 net) operated wells and completing, equipping, tying-in and placing on production 35 gross (33.6 net) operated wells. Two of the remaining three gross (2.8 net) operated wells were placed on production early in the fourth quarter of 2023. The remaining operated well is expected to be placed on production early in the first quarter of 2024. In addition to the drilling program, the Company expended $3.7 million of the capital program to the expansion of a wholly owned gas plant to alleviate processing capacity limitations, and an additional $21.9 million was directed to related infrastructure, recompletions, non-operated capital and the drilling of the Company's first exploratory Montney well. The Montney well was completed in the fourth quarter of 2023 and is currently in the early stages of flow back with an extended flow test planned in 2024.

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 nine months of 2023, Bonterra successfully abandoned 62.1 net wells and 123 pipelines for a total length of 108.8 kms of pipe and plans to abandon an additional 54 pipelines in the last quarter 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 Q2 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 $93.75 USD per bbl on 2,368 bbls per day. In addition, the Company has secured natural gas prices between $2.15 to $3.75 per GJ on 11,172 GJ per day to the end of Q2 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						Nine months ended			
	September 30, 2023		June 30, 2023		September 30, 2022		**September 30, 2023**		September 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	**12**	**11.8**	4	4.0	8	8.0	**38**	**36.4**	23	22.7
Crude oil horizontal-non-operated	**-**	**-**	-	-	3	0.4	**6**	**1.1**	9	1.1
Total	**12**	**11.8**	4	4.0	11	8.4	**44**	**37.5**	32	23.8
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 nine months of 2023, the Company drilled 38 gross (36.4 net) operated wells and completed, tied in, and placed on production 35 gross (33.6 net) operated wells. Two of the remaining three gross (2.8 net) operated wells were placed on production early in the fourth quarter of 2023 and the remaining well will be placed on production early in the first quarter of 2024. In addition to the 38 gross operated development wells, Bonterra drilled an exploratory Montney well which the Company completed subsequent to the quarter and plans to flow test in 2024.

Production

	Three months ended			Nine months ended	
	September 30, 2023	June 30, 2023	September 30, 2022	**September 30, 2023**	September 30, 2022
Crude oil (barrels per day)	**7,177**	7,282	6,649	**7,176**	7,207
NGLs (barrels per day)	**1,410**	1,248	1,206	**1,272**	1,119
Natural gas (MCF per day)	**34,241**	32,286	31,052	**32,669**	31,333
Average BOE per day	**14,294**	13,911	13,031	**13,893**	13,548

The Company averaged 13,893 BOE per day of production in the first nine months of 2023, which was higher than the comparable period in 2022. The increase was due to Bonterra's successful capital program, which was partially offset by 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. With the shut-in volumes resolved in Q3 2023, the Company achieved a 1,263 BOE per day, or 10 percent increase in production when comparing Q3 2023 to Q3 2022.

Cash Netback

$ per BOE	Three months ended **September 30, 2023**	 June 30, 2023	 September 30, 2022	Nine months ended **September 30, 2023**	 September 30, 2022
Production volumes (BOE)	**1,315,079**	1,265,887	1,198,835	**3,792,701**	3,698,530
Gross production revenue	**64.57**	59.73	74.09	**62.69**	80.31
Realized gain (loss) on risk management contracts	**0.52**	0.95	(2.59)	**0.47**	(4.23)
Royalties	**(8.10)**	(7.02)	(15.16)	**(8.74)**	(12.65)
Production costs	**(16.61)**	(16.88)	(20.33)	**(17.00)**	(17.88)
Field netback	**40.38**	36.78	36.01	**37.42**	45.55
General and administrative	**(2.30)**	(2.73)	(2.47)	**(2.45)**	(2.64)
Interest and other	**(3.64)**	(3.83)	(2.87)	**(3.85)**	(2.91)
Current income tax[(1)]	**(1.96)**	(2.73)	(1.10)	**(2.94)**	(0.95)
Cash netback	**32.48**	27.49	29.57	**28.18**	39.05
$000s					
Investment tax credits used ("ITC")[(1)]	**-**	459	-	**4,260**	-
ITCs used $ per BOE	**-**	0.36	-	**1.12**	-
Adjusted cash netback	**32.48**	27.85	29.57	**29.30**	39.05

(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 nine months of 2023 on a BOE basis compared to the same period in 2022 primarily due to lower per BOE realized commodity prices, 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 **September 30, 2023**	 June 30, 2023	 September 30, 2022	Nine months ended **September 30, 2023**	 September 30, 2022
Revenue - oil and gas sales ($ 000s)					
Light oil	**68,883**	61,770	68,166	**191,536**	229,342
NGL	**6,383**	4,993	7,155	**17,044**	20,893
Conventional natural gas	**9,643**	8,843	13,506	**29,198**	46,808
	84,909	75,606	88,827	**237,778**	297,043
Average realized prices:					
Light oil ($ per barrel)	**104.32**	93.21	111.44	**97.77**	116.57
NGL ($ per barrel)	**49.19**	43.97	64.45	**49.08**	68.41
Conventional natural gas ($ per MCF)	**3.06**	3.01	4.73	**3.27**	5.47
Average ($ per BOE)	**64.57**	59.73	74.09	**62.69**	80.31
Average BOE per day	**14,294**	13,911	13,031	**13,893**	13,548

Revenue from oil and gas sales in the first nine months of 2023 decreased by $59.3 million, or 20 percent, compared to the same period in 2022. This decrease was primarily driven by a 22 percent reduction in Bonterra's realized commodity prices over the same period. Quarter-over-quarter, revenue from oil and gas sales increased due to higher realized crude oil prices and an increase in production.

Bonterra's product split on a revenue basis was weighted approximately 88 percent to crude oil and NGLs during 2023.

Royalties

($ 000s)	Three months ended September 30, 2023	June 30, 2023	September 30, 2022	Nine months ended September 30, 2023	September 30, 2022
Crown royalties	**7,382**	6,157	14,240	**23,505**	33,603
Freehold, gross overriding and other royalties	**3,267**	2,735	3,934	**9,639**	13,191
Total royalties	**10,649**	8,892	18,174	**33,144**	46,794
Crown royalties - percentage of revenue	**8.7**	8.1	16.0	**9.9**	11.3
Freehold, gross overriding and other royalties - percentage of revenue	**3.8**	3.6	4.4	**4.1**	4.4
Royalties - percentage of revenue	**12.5**	11.7	20.4	**14.0**	15.7
Royalties $ per BOE	**8.10**	7.02	15.16	**8.74**	12.65

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 nine months of 2023 decreased by $3.91 per BOE compared to the same period in 2022 primarily due to a decrease in commodity prices. Quarter-over-quarter, royalties increased due to higher commodity prices.

Production Costs

($ 000s except $ per BOE)	Three months ended September 30, 2023	June 30, 2023	September 30, 2022	Nine months ended September 30, 2023	September 30, 2022
Production costs	**21,844**	21,367	24,366	**64,461**	66,134
$ per BOE	**16.61**	16.88	20.33	**17.00**	17.88

Production costs for the first nine months of 2023 decreased compared to the same period in 2022, primarily due to less well and facility maintenance as the Company replaced old infrastructure with newer upgrades that require less maintenance. The Company also incurred less service rig costs due to fewer wells being worked over in the current period. This was partially offset by general cost increases due to inflation and an increase in government levies.

Quarter-over-quarter, production costs slightly decreased on a BOE basis due to less chemical usage from field optimization programs and reduced trucking costs from less new well production in areas with lower water disposal capacity. In addition, the Company experienced reduced power rates in Q3 2023 compared to the prior quarter. This was partially offset by increased well, road and lease maintenance costs that typically occur in the third quarter after spring break-up.

Other Income

($ 000s)	Three months ended September 30, 2023	June 30, 2023	September 30, 2022	Nine months ended September 30, 2023	September 30, 2022
Investment income	**104**	117	50	**320**	106
Administrative income	**74**	55	174	**201**	499
Gain on sale of property	**17**	-	-	**17**	-
Government grant in-kind	**-**	-	791	**782**	2,403
Deferred consideration	**232**	253	261	**735**	865
Realized gain (loss) on risk management contracts	**680**	1,204	(3,103)	**1,773**	(15,633)
Unrealized gain (loss) on risk management contracts	**(3,266)**	(1,298)	11,046	**(3,058)**	5,611
	(2,159)	331	9,219	**770**	(6,149)

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 September 30, 2023 totaled $1,793,000 (September 30, 2022 - $2,025,000). There were no dispositions during the period ended September 30, 2023 or September 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 (September 30, 2022 - $2.4 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 October 1, 2023 to June 30, 2024 and are for a total of 584,600 barrels of light crude oil (approximately 2,133 barrels of oil per day for the next nine months) at fixed WTI prices ranging from $50.00 USD to $93.75 USD per barrel. In addition, the Company has entered into financial derivatives on natural gas prices between $2.25 and $3.56 on 5,000 GJ per day for the period from October 1, 2023 to June 30, 2024. These contracts are not considered normal sales contracts and are recorded at fair value.

General and Administrative ("G&A") Expense

	Three months ended			Nine months ended	
($ 000s except $ per BOE)	**September 30, 2023**	June 30, 2023	September 30, 2022	**September 30, 2023**	September 30, 2022
Employee compensation	**1,829**	1,563	1,997	**5,275**	6,302
Office and administrative	**1,201**	1,887	960	**4,011**	3,476
Total G&A	**3,030**	3,450	2,957	**9,286**	9,778
$ per BOE	**2.30**	2.73	2.47	**2.45**	2.64

Employee compensation expense decreased by $1.0 million for the first nine months of 2023 compared to 2022. The decrease is primarily due to a lower bonus accrual due to lower net earnings before taxes.

Office and administrative expense increased in the first nine months of 2023 compared to the same period in 2022 primarily due to an increase in the provision for the allowance for doubtful accounts.

Finance Costs

	Three months ended			Nine months ended	
($ 000s except $ per BOE)	**September 30, 2023**	June 30, 2023	September 30, 2022	**September 30, 2023**	September 30, 2022
Interest on bank debt and subordinated debt	**867**	879	2,348	**2,718**	7,362
Subordinated debentures	**1,328**	1,327	1,328	**3,983**	3,983
Subordinated term debt	**2,748**	2,804	-	**8,450**	-
Interest expense	**4,943**	5,010	3,676	**15,151**	11,345
$ per BOE	**3.76**	3.96	3.07	**3.99**	3.07
Accretion of decommissioning liabilities	**956**	947	1,179	**2,827**	2,597
Accretion on subordinated debentures	**706**	709	603	**2,026**	1,730
Accretion on subordinated term debt	**522**	561	-	**1,640**	-
Total finance costs	**7,127**	7,227	5,458	**21,644**	15,672

Interest on bank debt was lower in the first nine months of 2023 compared to 2022 due to a decrease of approximately 81 percent in 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 (September 30, 2022 - $2.1 million). The BDC Loan was fully repaid on November 25, 2022.

Subordinated unsecured term debt on September 30, 2023 was $80.8 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 September 30, 2023, the effective interest rate was determined to be 16.4 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 September 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 September 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 September 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 $671,000.

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

Share-Option Compensation

	Three months ended			Nine months ended	
($ 000s)	**September 30, 2023**	June 30, 2023	September 30, 2022	**September 30, 2023**	September 30, 2022
Share-option compensation	**471**	702	525	**2,282**	1,278

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 September 30, 2023, the Company has an unamortized expense of $2,668,000, of which $634,000 will be recognized for the remainder of 2023; $1,521,000 in 2024 and $513,000 thereafter. For more information about options issued and outstanding, refer to Note 8 of the September 30, 2023, condensed financial statements.

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

	Three months ended			Nine months ended	
($ 000s)	**September 30, 2023**	June 30, 2023	September 30, 2022	**September 30, 2023**	September 30, 2022
Depletion and depreciation	**21,984**	22,607	23,697	**66,408**	69,022

The provision for depletion and depreciation ("D&D") decreased in the first nine 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 $11.4 million in the first nine months of 2023 (2022 – $20.5 million). The income tax expense decrease compared to the prior period is due to reduced earnings before income taxes. The current income tax portion of the provision of $11.4 million, is comprised of $3.3 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 September 30, 2023 condensed financial statements.

Net Earnings

	Three months ended			Nine months ended	
($ 000s except $ per share)	**September 30, 2023**	June 30, 2023	September 30, 2022	**September 30, 2023**	September 30, 2022
Net earnings	**13,486**	8,844	17,696	**29,970**	61,759
$ net earnings per share - basic	**0.36**	0.24	0.49	**0.81**	1.73
$ net earnings per share - diluted	**0.36**	0.24	0.47	**0.80**	1.65

Net earnings for the first nine months 2023 decreased by $31.8 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 prior year and a decrease in the tax provision. The quarter-over-quarter increase in net earnings is primarily due to higher crude oil prices and production in the third quarter.

Other Comprehensive Income

Other comprehensive income for 2023 consists of an unrealized loss before tax on investments (including investment in a related party) of $235,000 relating to a decrease in the investments' fair value (September 30, 2022 –$1,133,000 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			Nine months ended	
($ 000s except $ per share)	**September 30, 2023**	June 30, 2023	September 30, 2022	**September 30, 2023**	September 30, 2022
Cash flow from operations	**37,715**	33,854	48,810	**95,587**	148,059
$ per share - basic	**1.01**	0.91	1.35	**2.57**	4.14
$ per share - diluted	**1.01**	0.91	1.30	**2.56**	3.96

In the first nine months of 2023, cash flow from operations decreased by $52.5 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 higher oil and NGL prices and increased production.

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 September 30, 2023 was 1.3 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 nine 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 last quarter 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)	**September 30, 2023**	June 30, 2023	December 31, 2022	September 30, 2022
Working capital deficiency	**30,440**	20,248	12,578	14,926
Bank debt	**26,613**	35,506	17,601	74,524
Subordinated debt	**-**	-	-	47,261
Subordinated debentures	**53,124**	51,090	49,770	50,417
Subordinated term debt (long-term portion)	**57,272**	61,500	69,882	-
Net debt	**167,449**	168,344	149,831	187,128

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 September 30, 2023 and December 31, 2022. Included in working capital deficiency is $19.0 million of principal payments due in the next twelve months 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 September 30, 2023 decreased by $19.7 million compared to September 30, 2022, primarily due to the Company's continued focus on net debt reduction, which was partially offset by the Company's front loaded 2023 capital program.

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 Q2 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 September 30, 2023 condensed financial statements.

Capital Expenditures

During the nine months ended September 30, 2023, the Company incurred capital expenditures of $112.5 million (September 30, 2022 - $67.1 million). Of the total capital invested, $86.9 million was directed to the drilling of 38 gross (36.4 net) operated wells and the completion, equip and tie-in of gross 35 (33.6 net) operated wells. Two of the remaining three gross (2.8 net) operated wells were placed on production early in the fourth quarter of 2023. The remaining operated well, along with three more operated wells to be drilled in Q4 2023, are expected to be placed on production early in the first quarter of 2024. In addition to the development drilling program, Bonterra also expended $3.7 million on expanding a wholly owned gas plant and an additional $21.9 million was spent primarily on related infrastructure, recompletions, non-operated capital programs and the drilling of the Company's first exploratory Montney well. The Montney well was completed in the fourth quarter and is currently in the early stages of flow back with an extended flow test planned in 2024.

Decommissioning Liabilities

Including the Alberta SRP funding that was received in the first quarter, the Company spent $6.5 million on decommissioning activities during the nine months ended September 30, 2023. Since the beginning of 2020, Bonterra successfully abandoned 547.7 net wells, 410 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 September 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 September 30, 2023 was $26.6 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 September 30, 2023, the terms of the total revolving Bank Facility provided that the loan facility was revolving to April 30, 2024, with a maturity date of April 30, 2025, with no set terms of repayment on the credit facility. The terms of the revolving Bank Facility were confirmed on October 25, 2023. The Company is subject to the next semi-annual determination by April 30, 2024.

As at September 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 September 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 September 30, 2023 was $80.8 million (December 31, 2022 - $95.0 million). Based on the calculated fair value of the debt as at September 30, 2023, the effective interest rate was determined to be 16.4 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 as at December 31 and evaluated on strip commodity pricing, divided by the consolidated debt of the Company. The ratio is calculated and revaluated for strip pricing on June 30 and December 31 period ends.

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

For more information about bank debt and Subordinated Term Debt, please see Note 4 and 6, respectively, of the September 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, September 30, 2023	**37,244,467**	**783,176**

A total of 2,753,000 Warrants are outstanding as at September 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 September 30, 2023, condensed financial statements.

Quarterly Financial Information

For the periods ended ($ 000s except $ per share)	**2023** Q3	2023 Q2	2023 Q1	2022 Q4	2022 Q3	2022 Q2	2022 Q1
Revenue - oil and gas sales	**84,909**	75,606	77,263	87,154	88,827	116,674	91,542
Cash flow from operations	**37,715**	33,854	24,018	35,494	48,810	58,307	40,942
Net earnings	**13,486**	8,844	7,640	17,264	17,696	33,544	10,519
Per share - basic	**0.36**	0.24	0.21	0.47	0.49	0.93	0.30
Per share - diluted	**0.36**	0.24	0.20	0.46	0.47	0.88	0.29

For the periods ended ($ 000s except $ per share)	2021 Q4	2021 Q3	2021 Q2	2021 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 September 30, 2023, Bonterra's total contractual obligations and commitments were $254,345,000. 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 nine months ended September 30, 2023. For more information, refer to Note 12 "Commitments and Financial Liabilities" of the September 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 September 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 of 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 or damage to production facilities and equipment. 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 September 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 nine months ended September 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	**September 30, 2023**	December 31, 2022
Assets			
Current			
Accounts receivable		**31,944**	27,326
Crude oil inventory		**924**	1,106
Prepaid expenses		**7,021**	7,208
Investment tax credit receivable		**-**	5,761
Risk management contract	11	**-**	798
Investments		**1,793**	2,028
		41,682	44,227
Exploration and evaluation assets		**5,785**	4,563
Property, plant and equipment	3	**908,017**	870,892
		955,484	919,682
Liabilities			
Current			
Accounts payable and accrued liabilities		**49,953**	35,573
Risk management contract	11	**2,260**	-
Subordinated term debt	6	**19,000**	20,193
Deferred consideration		**909**	1,039
		72,122	56,805
Bank debt	4	**26,613**	17,601
Subordinated debentures	5	**53,124**	49,770
Subordinated term debt	6	**57,272**	69,882
Deferred consideration		**8,446**	9,051
Decommissioning liabilities		**97,750**	109,215
Deferred tax liability	7	**127,678**	127,519
		443,005	439,843
Shareholders' equity			
Share capital	8	**783,176**	781,679
Contributed surplus		**33,085**	31,705
Warrants	8	**6,053**	6,053
Accumulated other comprehensive income		**577**	784
Deficit		**(310,412)**	(340,382)
		512,479	479,839
		955,484	919,682

Commitments and contingencies	12
Subsequent events	11

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

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

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF CASH FLOW

For the periods ended September 30 (unaudited)		Three months		Nine months	
($ 000s)	Note	**2023**	2022	**2023**	2022
Operating activities					
Net earnings		**13,486**	17,696	**29,970**	61,759
Items not affecting cash					
Deferred income tax expense		**1,580**	3,851	**186**	16,930
Share-option compensation		**471**	525	**2,282**	1,278
Investment income		**(104)**	(50)	**(320)**	(106)
Finance costs	10	**7,127**	5,458	**21,644**	15,672
Unrealized (gain) loss on risk management contracts	11	**3,266**	(11,046)	**3,058**	(5,611)
Deferred consideration		**(232)**	(261)	**(735)**	(865)
Depletion and depreciation	3	**21,984**	23,697	**66,408**	69,022
Gain on sale of property		**(17)**	-	**(17)**	-
Government grant in-kind	13	**-**	(791)	**(782)**	(2,403)
Decommissioning expenditures		**(1,351)**	(1,334)	**(5,749)**	(4,505)
Interest paid	10	**(3,616)**	(2,349)	**(13,824)**	(10,024)
Changes in non-cash working capital accounts	10	**(4,879)**	13,414	**(6,534)**	6,912
Cash provided by operating activities		**37,715**	48,810	**95,587**	148,059
Financing activities					
Increase (decrease) of bank debt		**(8,893)**	(36,952)	**9,012**	(88,421)
Decrease of subordinated term debt	6	**(4,750)**	-	**(15,443)**	-
Proceeds from warrants exercised	5	**-**	-	**-**	4,270
Stock option proceeds		**-**	113	**595**	870
Cash used in financing activities		**(13,643)**	(36,839)	**(5,836)**	(83,281)
Investing activities					
Investment income received		**104**	50	**320**	106
Exploration and evaluation expenditures		**(737)**	(2,124)	**(1,221)**	(2,569)
Property, plant and equipment expenditures	3	**(35,393)**	(18,328)	**(111,248)**	(64,558)
Proceeds on sale of property		**28**	-	**28**	-
Changes in non-cash working capital accounts	10	**11,926**	8,431	**22,370**	2,243
Cash used in investing activities		**(24,072)**	(11,971)	**(89,751)**	(64,778)
Net change in cash in the period		**-**	**-**	**-**	**-**
Cash, beginning of period		**-**	-	**-**	-
Cash, end of period		**-**	-	**-**	-

The following are included in cash flow from operating activities:				
Income taxes paid	**1,371**	-	**8,436**	-

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF CHANGES IN EQUITY

For the periods ended (unaudited)
($ 000's, except number of shares outstanding)

	Numbers of common shares outstanding (Note 8)	Share capital (Note 8)	Contributed surplus [1]	Warrants	Accumulated other comprehensive income (loss)[2]	Deficit	Total shareholders' equity
January 1, 2022	35,000,952	772,781	31,599	7,265	(221)	(419,405)	392,019
Share-option compensation			1,278				1,278
Exercise of options	686,077	870					870
Transfer to share capital on exercise of options		565	(565)				-
Exercise of warrants	551,000	4,270					4,270
Transfer to share capital on exercise of warrants		1,212		(1,212)			-
Comprehensive income					1,003	61,759	62,762
September 30, 2022	36,238,029	779,698	32,312	6,053	782	(357,646)	461,199
Share-option compensation			632				632
Exercise of options	674,863	742					742
Transfer to share capital on exercise of options		1,239	(1,239)				-
Comprehensive income					2	17,264	17,266
December 31, 2022	36,912,892	781,679	31,705	6,053	784	(340,382)	479,839
Share-option compensation			2,282				2,282
Exercise of options	331,575	595					595
Transfer to share capital on exercise of options		902	(902)				-
Comprehensive income (loss)					(207)	29,970	29,763
September 30, 2023	37,244,467	783,176	33,085	6,053	577	(310,412)	512,479

(1) All amounts reported in Contributed Surplus relate to share-option compensation.
(2) Accumulated other comprehensive income is comprised of unrealized gains and losses on investments fair value through other comprehensive income.

See accompanying notes to these condensed financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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

1. NATURE OF BUSINESS AND SEGMENT INFORMATION

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

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

The financial statements were authorized for issue by the Company’s Board of Directors on November 8, 2023.

2. BASIS OF PREPARATION AND FUTURE OPERATIONS

a) Statement of Compliance

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

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

b) Adopted Accounting Pronouncements

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

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

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

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

c) Future Accounting Pronouncements

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

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

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

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

3. PROPERTY, PLANT AND EQUIPMENT

Cost ($ 000s)	**Oil and gas properties**	**Production facilities**	**Furniture fixtures & other equipment**	**Total property plant & equipment**
Balance at December 31, 2022	1,542,394	415,183	2,461	1,960,038
Additions	82,729	28,132	387	111,248
Disposal	-	-	(51)	(51)
Adjustment to decommissioning liabilities	(7,755)	-	-	(7,755)
Balance at September 30, 2023	**1,617,368**	**443,315**	**2,797**	**2,063,480**

Accumulated depletion and depreciation ($ 000s)	**Oil and gas properties**	**Production facilities**	**Furniture fixtures & other equipment**	**Total property plant & equipment**
Balance at December 31, 2022	(889,826)	(197,318)	(2,002)	(1,089,146)
Depletion and depreciation	(53,188)	(13,119)	(101)	(66,408)
Disposal and other	50	-	41	91
Balance at September 30, 2023	**(942,964)**	**(210,437)**	**(2,062)**	**(1,155,463)**

Carrying amounts as at: ($ 000s)				
December 31, 2022	652,568	217,865	459	870,892
September 30, 2023	**674,404**	**232,878**	**735**	**908,017**

Impairment

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

4. BANK DEBT

As at September 30, 2023, the Company had a total Bank Facility of $110,000,000 (December 31, 2022 - $110,000,000), comprised of a $85,000,000 syndicated revolving credit facility, and a $25,000,000 non-syndicated revolving credit facility. The amount drawn under the total Bank Facility at September 30, 2023 was $26,613,000 (December 31, 2022 - $17,601,000). The amounts borrowed under the total Bank Facility bear interest at a floating rate based on the applicable Canadian prime rate or Banker's Acceptance rate, plus between 2.00 percent and 7.00 percent, depending on the type of borrowing and the Company's consolidated debt to EBITDA ratio. EBITDA is defined as net income for the twelve month trailing period excluding finance costs, provision for current and deferred taxes, depletion and depreciation, share-option compensation, gain or loss on sale of assets and impairment of assets. As at September 30, 2023, the terms of the total revolving Bank Facility provided that the loan facility was revolving to April 30, 2024, with a maturity date of April 30, 2025, with no set terms of repayment on the credit facility. The terms of the revolving Bank Facility were confirmed on October 25, 2023. The Company is subject to the next semi-annual determination by April 30, 2024.

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

Financial Covenants

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

- Consolidated debt to trailing twelve months EBITDA Ratio shall not exceed 2.50:1.00; and
- Asset Coverage Ratio of not less 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 as at December 31 and evaluated on strip commodity pricing, divided by the consolidated debt of the Company. The ratio is calculated and revaluated for strip pricing on June 30 and December 31 period ends.

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

5. SUBORDINATED DEBENTURES

As at September 30, 2023 the Company has a total of 59,000 senior unsecured subordinated debenture units outstanding. Each Unit is comprised of: (i) one senior unsecured debenture with a par value of $1,000 per note and bearing interest at 9.0 percent per annum, payable semi-annually; and (ii) 56 common share purchase warrants of Bonterra ("Warrants"). The debentures mature on October 20, 2025 and all or a portion of the principal amount outstanding can be repaid without penalty after October 20, 2024, however, all interest due to the maturity date must be paid. A total of 3,304,000 Warrants were issued, entitling the holder to purchase one common share of Bonterra for each Warrant at a price of $7.75, until October 20, 2025. Interest paid in the first nine months of 2023 was $2,655,000 (September 30, 2022 -$2,655,000) Interest accrued in the first nine months of 2023 was $1,328,000 (September 30, 2022 - $1,328,000)

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

6. SUBORDINATED TERM DEBT

As at September 30, 2023 the Company has a second lien, non-revolving subordinated term debt facility ("Subordinated Term Debt"). The amount drawn under the Subordinated Term Debt at September 30, 2023 was $80,750,000 (December 31, 2022 - $95,000,000). The amounts borrowed under the Subordinated Term Debt bear interest at a fixed rate of 11.70 percent to be applied to 25 percent of the term facility principle and a floating interest rate of Canadian Prime Rate plus 6.25 percent on the remaining 75 percent of the principal amount. The Company is required to make mandatory principal repayments equal to $4.75 million, payable on the last banking day of February, May, August and November of each calendar year, commencing on February 28, 2023. The term debt has a maturity date of November 30, 2026 on which the remaining outstanding principle balance is to be paid.

Based on the calculated fair value of the Subordinated Term Debt as at September 30, 2023, the effective interest rate was determined to be 16.4 percent using the effective interest rate method. The effective interest rate was calculated by discounting future payments of interest and principal with the residual value allocated to issue costs of $6,310,000. The value of the debt will accrete up to the principal balance at maturity. Interest paid in 2023 was $8,450,000 (September 30, 2022 - $Nil).

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

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

7. INCOME TAXES

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

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

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

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

($ 000s)	Rate of Utilization (%)	Amount
Undepreciated capital costs	7-100	70,016
Share issue costs	20	5,422
Canadian oil and gas property expenditures	10	62,618
Canadian development expenditures	30	131,402
Canadian exploration expenditures	100	8,587
		278,045

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

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

8. SHAREHOLDERS' EQUITY

Authorized

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

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, September 30, 2023	**37,244,467**	**783,176**

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

The weighted average common shares used to calculate basic and diluted net earnings per share for the periods ended, are as follows:

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

(1) The Company did not include 5,032,500 share-options and warrants for the three months ended September 30, 2023 (September 30, 2022 – 1,167,500) and 5,037,500 share-options and warrants for the nine months ended September 30, 2023 (September 30, 2022 – 1,167,500) in the dilutive effect of share-options and warrants calculations as these were anti-dilutive.

Warrants

A summary of the status of warrants issued by the Company as of September 30, 2023 and changes during the period are presented below:

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

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

Options

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

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

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

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

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

	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	211,000	1.0 years	$ 3.28	137,500	$ 2.72
5.01 - 10.00	2,244,500	3.9 years	7.85	324,650	8.88
10.01 - 15.00	45,000	1.7 years	12.32	15,000	12.32
$ 1.00 - $ 15.00	2,500,500	3.6 years	$ 7.54	477,150	$ 7.38

The Company records compensation expense over the vesting period, which ranges between one and three years, based on the fair value of options granted to directors, officers and employees. In 2023, the Company granted 233,000 options with an estimated fair value of $531,000 or $2.28 per option using the Black-Scholes option pricing model with the following key assumptions:

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

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

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

9. OIL AND GAS SALES, NET OF ROYALTIES

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

10. SUPPLEMENTAL CASH FLOW INFORMATION

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

Finance expense

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

11. FINANCIAL RISK MANAGEMENT

Financial Risk Factors

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

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

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

The Company's overall risk management program seeks to mitigate these risks and reduce the volatility 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 $31,944,000 accounts receivable balance at September 30, 2023 (December 31, 2022 - $27,326,000) over 91 percent (December 31, 2022 – 93 percent) relate to product sales or risk management contracts with national and international banks and oil and gas companies.

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

As at September 30, 2023, approximately $1,316,000 or 1.5 percent of the Company's total accounts receivable are aged over 90 days and considered past due (December 31, 2022 - $262,000 or 1.1 percent). The majority of these accounts are due from various joint venture partners. The Company actively monitors past due accounts and takes the necessary actions to expedite collection, which can include withholding production or netting payables when the accounts are with joint venture partners. Should the Company determine that the ultimate collection of a receivable is in doubt, it will provide the necessary provision in its allowance for doubtful accounts with a corresponding charge to earnings. If the Company subsequently determines an account is uncollectable, the account is written off with a corresponding charge to the allowance account. The Company's allowance for doubtful accounts balance at September 30, 2023 is $1,945,000 (December 31, 2022 - $1,248,000) with the expense being included in general and administrative expenses. There were no material accounts written off during the period.

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

Capital Risk Management

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

The Company monitors capital based on the ratio of net debt (total debt adjusted for working capital) to cash flow from operating activities. This ratio is calculated using each quarter end net debt divided by the preceding twelve months' cash flow. At September 30, 2023, the Company had a net debt to cash flow level of 1.3:1 compared to 0.8:1 as at December 31, 2022. The increase in Bonterra's net debt to cash flow ratio is primarily due to an increase in net debt due to the Company's front-loaded capital program and a decrease in cash flow from lower commodity prices. The net debt to cash flow ratio is expected to continue to improve in subsequent quarters due to the Company's focus on debt reduction paired with increased production, reduced capital spending in the second half of the year and future cash flow protection from having approximately 30 percent of Bonterra's forecasted oil and natural gas production hedged over the next nine months.

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

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

a) Net debt to cash flow ratio

The net debt and cash flow amounts are as follows:

($ 000s)	**September 30, 2023**	December 31, 2022
Bank debt	**26,613**	17,601
Subordinated debentures	**53,124**	49,770
Subordinated term debt[1]	**57,272**	69,882
Current liabilities	**72,122**	56,805
Current assets	**(41,682)**	(44,227)
Net debt	**167,449**	149,831
Cash flow from operations (trailing twelve months)	**131,081**	183,553
Net debt to cash flow ratio	**1.3**	0.8

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

b) Risks and mitigation

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

Commodity Price Risk

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

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

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

Physical Delivery Sales Contracts

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

Product	Type of contract	Volume	Term			Contract price ($)			
Oil	Fixed price - WTI[1]	500 BBL/day	Oct 1, 2023	to	Dec 31, 2023			90.25	USD/BBL
Oil	Physical collar - WTI[1]	200 BBL/day	Apr 1, 2024	to	Jun 30, 2024	70.00	to	90.00	USD/BBL
Gas	Physical collar - AECO Monthly[5]	5,000 GJ/day	Oct 1, 2023	to	Dec 31, 2023	2.75	to	3.75	CAD/GJ
Gas	Physical collar - AECO Monthly[5]	5,000 GJ/day	Jan 1, 2024	to	Mar 31, 2024	2.75	to	3.45	CAD/GJ
Gas	Physical collar - AECO Monthly[5]	6,000 GJ/day	Apr 1, 2024	to	Jun 30, 2024	2.15	to	2.75	CAD/GJ
Gas	Fixed Price - AECO Daily[4]	2,500 GJ/day	Nov 1, 2023	to	Dec 31, 2023			2.75	CAD/GJ
Gas	Fixed Price - AECO Daily[4]	2,500 GJ/day	Apr 1, 2023	to	Oct 31, 2023			2.55	CAD/GJ

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

Risk Management Contracts

($ 000s)	Three months September 30, 2023	Three months September 30, 2022	Nine months September 30, 2023	Nine months September 30, 2022
Risk management contracts				
Realized gain (loss)	**680**	(3,103)	**1,773**	(15,633)
Unrealized gain (loss)	**(3,266)**	11,046	**(3,058)**	5,611
	(2,586)	7,943	**(1,285)**	(10,022)

The Company also enters into financial derivative instruments or risk management contracts to manage commodity price risk. These contracts are not considered normal executory sales contracts and are recorded at fair value in the financial statements.

The Company has entered into the following risk management contracts during the period ended September 30, 2023.

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

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

Product	Type of contract	Volume	Term	Contract price ($)
Oil	Financial collar - WTI	500 BBL/day	Jul 1, 2024 to Dec 31, 2024	65.00 to 92.80 USD/BBL

Interest Rate Risk

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

As of September 30, 2023, the Company's debt facilities consist of a $85,000,000 syndicated revolving credit facility, and a $25,000,000 non-syndicated revolving credit facility, $80,750,000 second lien Subordinated Term Debt and $59,000,000 in senior unsecured subordinated debentures. The borrowings under the total bank facilities are at bank prime plus or minus various percentages as well as by means of banker's acceptances ("BAs") within the Company's credit facility. The subordinated debt has a fixed interest rate of 11.7 percent for a quarter of the outstanding balance and prime plus 6.25 percent for the remaining outstanding balance. Subordinated debentures are at a fixed interest rate of nine percent. The Company manages its exposure to interest rate risk on its floating interest rate debt through entering into various term lengths on its BAs but in no circumstances do the terms exceed six months.

Sensitivity Analysis

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

A one percent increase (decrease) in the Canadian prime rate would decrease (increase) both annual net earnings and comprehensive income by $671,000.

Equity Price Risk

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

Foreign Exchange Risk

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

12. COMMITMENTS AND FINANCIAL LIABILITIES

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

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

[(1)] Principal amount.

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

The Company also has non-cancellable office lease commitments for building and office equipment. The building and office equipment leases have an average remaining life of 3.2 years.

13. GOVERNMENT GRANTS

The Government of Alberta's Site Rehabilitation Program ("SRP") provides grant funding through service providers to abandon or remediate oil and gas sites. The Company derecognized approximately $782,000 of asset retirement obligations as an in-kind grant (September 30, 2022 - $2,403,000). The benefit of the in-kind grant is recognized through other income.

CORPORATE INFORMATION

Board of Directors

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

Officers

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

Registrar and Transfer Agent

Odyssey Trust Company

Auditors

Deloitte LLP

Solicitors

Borden Ladner Gervais LLP

Bankers

CIBC
ATB Financial
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