BONTERRA ENERGY REPORTS FIRST QUARTER 2024 FINANCIAL AND OPERATING RESULTS

HIGHLIGHTS

As at and for the three months ended ($000s except $ per share)		**March 31, 2024**	December 31, 2023	March 31, 2023
FINANCIAL				
Revenue - realized oil and gas sales		**68,589**	81,739	77,263
Funds flow [1]		**27,018**	40,442	29,342
Per share - basic		**0.73**	1.09	0.79
Per share - diluted		**0.72**	1.08	0.79
Cash flow from operations		**21,654**	44,596	24,018
Per share - basic		**0.58**	1.20	0.65
Per share - diluted		**0.58**	1.19	0.64
Net earnings		**848**	14,973	7,640
Per share - basic		**0.02**	0.40	0.21
Per share - diluted		**0.02**	0.40	0.20
Capital expenditures		**32,924**	14,009	60,223
Oil and gas property acquisition[2]		**24,234**	-	-
Total assets		**984,464**	967,870	963,890
Net debt [3]		**176,360**	140,400	189,674
Bank debt		**38,688**	14,822	12,388
Shareholders' equity		**529,605**	528,258	488,762
OPERATIONS				
Light oil	-bbl per day	**6,622**	7,306	7,068
	-average price ($ per bbl)	**88.96**	97.01	95.71
NGLs	-bbl per day	**1,468**	1,619	1,155
	-average price ($ per bbl)	**46.08**	48.12	54.54
Conventional natural gas	-MCF per day	**36,594**	37,214	31,448
	-average price ($ per MCF)	**2.65**	2.73	3.78
Total BOE per day[4]		**14,189**	15,128	13,464

(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) On March 1, 2024, the Company acquired the Charlie Lake Assets for cash consideration of $23.6 million and $0.3 million in non-core mineral rights, including closing adjustments. The Charlie Lake Assets have been accounted for as an asset acquisition, which resulted in an increase of $24.2 million in PP&E and the assumption of $0.3 million in decommissioning liabilities.

(3) 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 debentures and subordinated term debt.

(4) BOE may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 MCF: 1 bbl is based on an energy conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

REPORT TO SHAREHOLDERS

I am pleased to update our shareholders with highlights of the operating and financial results generated by Bonterra Energy Corp. ("Bonterra" or the "Company") during the first three months of 2024. This quarter represents yet another period of continued progress and successful strategy execution by Bonterra, with all key performance metrics, including production volumes, on track with 2024 guidance. Despite approximately 260 BOE per day of production being shut-in because of the extremely cold weather experienced in January, production grew five percent over the same period in 2023, reflecting a combination of our successful, front-end loaded 2023 capital program, and incremental volumes from the strategic Charlie Lake asset acquisition.

As a result of Bonterra bringing new wells online in the latter half of 2023 and a substantially reduced drilling program in Q4 2023, the Company's Q1 2024 volumes were lower than in the previous quarter. Volumes in the second quarter are expected to reflect the positive impact of the Company's Q1 2024 drilling and capital program, along with a full quarter of acquired production from our Charlie Lake acquisition. Bonterra is pleased to reiterate the previously announced 2024 annual guidance targeting 13,800 to 14,200 BOE per day average production, stemming from a $90 million to $100 million 2024 capital expenditure budget.

Due to a strong balance sheet and available liquidity, Bonterra was able to close the strategic Charlie Lake acquisition on March 1, 2024 and fully fund it through our existing credit facility. With 79 net sections of land and 330 BOE per day of production, the acquisition provides a meaningful growth platform in a substantially de-risked and highly economic light oil play. The Charlie Lake asset integrates seamlessly with our established Cardium asset and its cash flow profile, while serving as an ideal complement to Bonterra's emerging Montney resource play.

Q1 Financial and Operating Snapshot

- Averaged **14,189 BOE per day** production in Q1 2024, five percent higher than Q1 2023, in line with current guidance;
- Generated funds flow of **$27.0 million ($0.72 per fully diluted share)**, compared to **$29.3 million ($0.79 per fully diluted share)** in Q1 2023, consistent with lower realized oil and gas sales resulting from lower commodity prices and wider oil differentials, offset by higher production volumes;
- Invested **$32.9 million** into capital expenditures which included $27.0 million for drilling 11 gross (10.5 net) operated wells, and completing, equipping, tying-in and placing on production 11 gross (10.0 net) operated wells, of which four gross (3.6 net) were drilled in the fourth quarter of 2023. The remaining four gross (4.0 net) operated wells were placed on production early in Q2 2024. In addition, $5.9 million was directed to related land and lease, infrastructure, recompletions and non-operated capital programs;
- Established a complementary **new Charlie Lake core area** during the quarter, acquiring 79 net sections of land prospective for light oil for cash consideration of $23.9 million (the "Acquisition").
- Realized average field netbacks of **$28.45 per BOE** in Q1 2024, and cash netbacks of **$20.91 per BOE**, both primarily reflecting lower realized commodity prices in the period compared to the prior year, partially offset by lower royalty costs and realized gains on risk management contracts.
- Undertook additional well maintenance in the period, incurring more service rig costs and other repairs following fewer wells being worked over in Q4 2023, resulting in average production costs of $17.98 per BOE in Q1 2024, on track with guidance but higher than the comparable period the prior year. This was offset by Bonterra's continued focus on cost control and operational enhancements.

- Exited the quarter with net debt of **$176.4 million**, reflecting the impact of the Charlie Lake asset acquisition, while bank debt totaled $38.7 million.
    - Subsequent to quarter-end, Bonterra renewed our $110 million bank facility, which is structured as a normal course, reserve-based credit facility available on a revolving basis through April 30, 2025, with bi-annual borrowing base redeterminations and a maturity of April 30, 2026.
    - The increase in net debt from Q4 2023 is due largely to the $23.9 million Charlie Lake asset acquisition which contributed to a debt to EBITDA ratio of 1.0 times at the end of Q1 2024.

Delivering on Milestones

Coming off record production in Q4 2023, we expect to see a significant increase in production in Q2 2024 resulting from our successful Q1 drilling program, acquired production from the Charlie Lake area and additional production from our first Montney test well at 04-03-074-6W6 (the "4-3 Well"). We are pleased to reiterate our previously announced 2024 annual guidance targeting 13,800 to 14,200 BOE per day average production, on a $90 million to $100 million capital expenditure budget.

The Company's capital investments in Q1 2024 totaled $32.9 million with the majority allocated to the drilling of 11 gross (10.5 net) operated wells and the completion, equip and tie-in of 11 gross (10.0 net) operated wells, of which four gross (3.6 net) were drilled in Q4 2023. We placed the remaining four gross (4.0 net) operated wells on production early in the second quarter of 2024 and invested in land and lease, infrastructure, recompletions, and non-operated capital programs.

Approximately 87 percent of our total realized oil and gas sales in the first quarter were higher value light oil and liquids production, resulting in reduced exposure to the persistent weakness in natural gas pricing. Field and cash netbacks averaged $28.45 and $20.91 per BOE, respectively, with first quarter 2024 funds flow totaling $27.0 million ($0.72 per fully diluted share) and net earnings remaining positive at $848 thousand, or $0.02 per diluted share. The impact of benchmark oil prices softening and differentials widening in Q1 2024 drove lower realized oil and gas sales, funds flow and net earnings compared to both the previous quarter and Q1 2023.

In March, the Company was pleased to update our Sustainability Report, sharing Bonterra's continued success across environmental, social and governance initiatives. The report updates stakeholders on our performance against environmental and climate targets and metrics; health and safety performance; community engagement initiatives and overall responsible development. A copy of our report is available on Bonterra's website.

Extending our Development Runway

Charlie Lake Acquisition

Demonstrating the continued execution of our strategy and supporting Bonterra's long-term sustainability, we completed the strategic Charlie Lake asset acquisition drawing on a healthy balance sheet and available liquidity, while remaining well within our leverage tolerance.

The Acquisition bolstered the Company's existing 37 net sections of land in the area, leading to Bonterra having 116 net sections of contiguous Charlie Lake land, representing a meaningful growth asset in a substantially de-risked and highly economic light oil play. The features and characteristics of the Charlie Lake are analogous to our legacy Cardium assets and cash flow profile. As such, Bonterra's technical team can leverage their extensive operational expertise and solid track record of successful execution in the Cardium to enhance, streamline and optimize our Charlie Lake area development.

Further, Bonterra's development runway has been enhanced with a highly economic drilling inventory including over 100 Tier-1 identified net extended reach horizontal locations, which we anticipate will support an increasing sustainable free cash flow profile. A five-well development drilling program in the Charlie Lake area, including one drilled but uncompleted well, is expected to commence in the second quarter of 2024, adding to our existing organic growth plans. Bonterra anticipates Charlie Lake production will reach 6,000 BOE per day by 2026 and can be maintained for over a decade, based on conservative estimates of the identified drilling inventory.

First Montney Well Supports Continued Drilling

Bonterra's Montney asset is located north of Grand Prairie, Alberta (Valhalla), on a contiguous 47 sections (30,080 acres) of land with 100 percent working interest. The Company has identified more than 90 potential extended reach horizontal well locations providing Bonterra with scalable development and potential reserves growth. In the fourth quarter of 2023, the Company achieved a significant milestone with the successful and under budget drilling and completion of the 4-3 Well. The subsequent 30-day production test that was announced in November, and peaked at 753 BOE per day, validated our play expectations.

In the first quarter of 2024, we secured a processing agreement and natural gas egress via third-party infrastructure. Additionally, we constructed a 100 percent owned battery, enabling the tie-in of the Montney well and providing us with greater optionality to potentially drill a second well from the same pad and test it in-line later in the year. Bonterra is presently working to optimize battery performance and intends to bring the well into production during the second quarter of 2024. In addition, Bonterra drilled a water disposal well in the second quarter of 2024, to decrease water disposal costs while improving the overall economics of the area's development. Moving forward, the Company will adopt a measured approach to the pace of development in the Montney ensuring alignment with available infrastructure, egress and capital availability.

Where We Go From Here

The Company estimates by the end of 2024, Bonterra will have abandoned 36.1 net wells and 50 pipelines (for a total length of 46 kilometers of pipe), with 219 well sites decommissioned in preparation for future reclamation. An anticipated $7.0 million is budgeted for decommissioning liabilities in 2024, which exceeds our mandatory spend requirements under the Alberta Energy Regulator's Liability Management Program.

To protect project economics and cash flows during the balance of 2024, Bonterra has risk management contracts in place on approximately 40 percent of estimated oil and 30 percent of estimated natural gas production through 2024. This helps to reduce exposure to, and mitigate risk from, declining commodity prices, while imparting stability for our capital expenditure program.

The Company's established Cardium asset combined with meaningful growth positions within two of North America's top trending economic plays afford Bonterra an optimal inventory and asset mix that span the development spectrum and underpin our future.

- The established Cardium cash flow engine provides a stable production platform with top-tier netbacks that support sustained long-term growth and free funds flow generation;
- The emerging Montney area is currently in the de-risking phase to validate over 80 high-impact drilling locations on our 100 percent owned contiguous land position that totals over 30,000 acres;
- The exciting new Charlie Lake asset is situated within a trending light oil play that offers superior economics and attractive growth potential, while also enabling Bonterra to leverage our Cardium expertise to optimize returns by directing capital interchangeably between the Cardium and Charlie Lake.

Following our successful acquisition of the Charlie Lake assets, we can now redirect internal resources towards efficient capital deployment that targets production maintenance and organic growth. We believe the continued development of our three core areas can fuel production growth, facilitate ongoing debt repayment, and further our commitment to implementing a sustainable return of capital model.

Bonterra will remain sharply focused on the responsible, safe and efficient execution of our business strategy to develop and optimize our oil-weighted, high-growth and diverse asset portfolio in 2024, while we continue to evaluate and review acquisition opportunities. We look forward to building on our current momentum, driving responsible and sustainable long-term value creation.

Patrick Oliver
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following report dated May 14, 2024 is a review of the operations and current financial position for the three months ended March 31, 2024 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, 2023 presented under International Financial Reporting Standards (IFRS), as well as Bonterra's Annual Information Form ("AIF"), each of which is filed on SEDAR+ at www.sedarplus.ca.

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

	2024	2023			
As at and for the periods ended ($ 000s except $ per share)	**Q1**	Q4	Q3	Q2	Q1
Financial					
Revenue - oil and gas sales	**68,589**	81,739	84,909	75,606	77,263
Cash flow from operations	**21,654**	44,596	37,715	33,854	24,018
Per share - basic	**0.58**	1.20	1.01	0.91	0.65
Per share - diluted	**0.58**	1.19	1.01	0.91	0.64
Net earnings	**848**	14,973	13,486	8,844	7,640
Per share - basic	**0.02**	0.40	0.36	0.24	0.21
Per share - diluted	**0.02**	0.40	0.36	0.24	0.20
Capital expenditures	**32,924**	14,009	36,130	16,116	60,223
Oil and gas property acquisition[(1)]	**24,234**	-	-	-	-
Total assets	**984,464**	967,870	955,484	962,021	963,890
Net debt	**176,360**	140,400	167,449	168,344	183,674
Shareholders' equity	**529,605**	528,258	512,479	498,449	488,762
Operations					
Light oil (barrels per day)	**6,622**	7,306	7,177	7,282	7,068
NGLs (barrels per day)	**1,468**	1,619	1,410	1,248	1,155
Conventional natural gas (MCF per day)	**36,594**	37,214	34,241	32,286	31,448
Total BOE per day	**14,189**	15,128	14,294	13,911	13,464

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

	2022			
As at and for the periods ended ($ 000s except $ per share)	Q4	Q3	Q2	Q1
Financial				
Revenue - oil and gas sales	87,154	88,827	116,674	91,542
Cash flow from operations	35,494	48,810	58,307	40,942
Per share - basic	0.97	1.35	1.62	1.16
Per share - diluted	0.95	1.30	1.53	1.11
Net earnings	17,264	17,696	33,544	10,519
Per share - basic	0.47	0.49	0.93	0.30
Per share - diluted	0.46	0.47	0.88	0.29
Capital expenditures	12,642	20,452	14,506	32,169
Total assets	919,682	948,259	934,303	965,969
Net debt	149,831	187,128	211,284	260,670
Shareholders' equity	479,839	461,199	442,653	405,148
Operations				
Light oil (barrels per day)	6,764	6,649	7,623	7,356
NGLs (barrels per day)	1,209	1,206	1,151	996
Conventional natural gas (MCF per day)	30,101	31,052	33,323	29,609
Total BOE per day	12,989	13,031	14,328	13,287

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.

	Q1-2024	Q4-2023	Q3-2023	Q2-2023	Q1-2023	Q4-2022	Q3-2022	Q2-2022
Crude oil								
WTI (U.S.$/bbl)	**76.96**	78.32	82.26	73.78	76.13	82.64	91.56	108.41
WTI to MSW Stream Index								
Differential (U.S.$/bbl)[1]	**(8.64)**	(5.16)	(1.83)	(2.96)	(2.86)	(1.61)	(2.05)	(0.50)
Foreign exchange								
U.S.$ to Cdn$	**1.3488**	1.3619	1.3410	1.3431	1.3520	1.3578	1.3059	1.2766
Bonterra average realized								
oil price (Cdn$/bbl)	**88.96**	97.01	104.32	93.21	95.71	105.59	111.44	126.97
Natural gas								
AECO (Cdn$/mcf)	**2.48**	2.29	2.58	2.44	3.20	5.09	4.14	7.20
Bonterra average realized								
gas price (Cdn$/mcf)	**2.65**	2.73	3.06	3.01	3.78	5.36	4.73	6.76

[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 $76.96 USD per barrel in Q1 2024, which is comparable to Q1 2023. 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, persistent crude oil supply growth outside of OPEC+, and a slower than expected ramp up in demand from China as their economy struggles to regain growth rates similar to those realized prior to 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 ($8.64) USD per barrel in Q1 2024, an increase of $5.78 USD per barrel from Q1 2023. Replenished inventories at the Cushing storage hub in Oklahoma and apportionment on downstream Canadian pipelines have been the largest contributing factor in moving the differential wider compared to recent quarters. The recent commissioning of the Trans Mountain Pipeline Expansion in May 2024 is expected to increase Canada's export capabilities and to have a positive effect on the movement and pricing of all Canadian barrels.

AECO daily spot prices averaged $2.48 per mcf in Q1 2024, a decrease of 23 percent over Q1 2023. The decrease is mainly due to a supply and demand balance that is quite loose, elevated storage levels that have been exacerbated by an unseasonably mild winter across much of the Northern Hemisphere and continued strong supply.

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

Annualized sensitivity analysis on before tax cash flow, as estimated for 2024[1]

Impact on cash flow	Change ($)	$000s	$ per share[2]
Realized crude oil price ($/bbl)	1.00	2,230	0.06
Realized natural gas price ($/mcf)	0.10	1,187	0.03
U.S.$ to Canadian $ exchange rate	0.01	1,561	0.04

(1) This analysis uses current royalty rates, annualized estimated average production of 14,000 BOE per day and no changes in working capital.

(2) Based on annualized basic weighted average shares outstanding of 37,287,290.

Business Overview, Strategy and Key Performance Drivers

Bonterra continued pursuing the profitable development of its high-quality, light oil weighted asset base in Q1 2024. The Company remains focused on enhancing its long-term financial position by adding to its asset base and continuing to reduce net debt, with a goal to progress towards implementing a sustainable shareholder returns-based business model supported by modest production growth.

On March 1, 2024, Bonterra closed an acquisition to purchase primarily undeveloped petroleum and natural gas assets in northern Alberta, for cash consideration of $23.6 million and $0.3 million in non-core mineral rights, after closing adjustments (the "Charlie Lake Asset Acquisition"). This acquisition was funded by our bank facility and resulted in a $24.2 million increase in property, plant and equipment, and the assumption of $0.3 million in decommissioning liabilities. The assets acquired currently produce 330 BOE per day and provide a portfolio of high-quality future drilling locations and reserves, establishing a new core operating area for the Company.

On April 30, 2024, Bonterra completed the renewal of its bank facility totaling $110 million, of which $38.7 million has been drawn as of March 31, 2024 (the "Bank Facility"). The Bank Facility is structured as a normal course, reserve-based credit facility available on a revolving basis through April 30, 2025, with bi-annual borrowing base redeterminations and a term maturity of April 30, 2026.

The Company averaged 14,189 BOE per day of production in the first quarter of 2024, compared to 13,464 BOE per day in the same period of 2023, an increase of 725 BOE per day, or five percent. The increase was primarily driven by new wells which were brought online in the latter half of 2023 associated with the Company's active 2023 capital program, and was partially offset by approximately 260 BOE per day of shut-in volumes in Q1 2024 primarily due to extremely cold weather in January. The Company is pleased to reiterate its previously announced 2024 annual guidance with average production between 13,800 to 14,200 BOE per day based on a 2024 capital expenditure budget between $90 million to $100 million.

Bonterra invested capital expenditures of $32.9 million in Q1 2024. Of the capital invested, $27.0 million was directed to the drilling of 11 gross (10.5 net) operated wells and completing, equipping, tying-in and placing on production 11 gross (10.0 net) operated wells, of which four gross (3.6 net) were drilled in Q4 2023. The remaining four gross (4.0 net) operated wells were placed on production early in the second quarter of 2024. An additional $5.9 million was directed primarily to related infrastructure and recompletions.

The Company will continue to focus on responsible environmental initiatives, including a targeted abandonment and reclamation program. At the end of the 2024 year, Bonterra anticipates having abandoned 36.1 net wells, 50 pipelines (for a total length of 46.0 kilometers of pipe), decommissioned 219 well sites in preparation for future reclamation and reclaimed 16.0 net well sites. The Company estimates it will spend approximately $7.0 million on decommissioning liabilities in 2024, which exceeds its mandatory spend requirements under the Alberta Energy Regulator's Liability Management Program.

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 2024 on approximately 40 percent of its expected crude oil production and 30 percent of its natural gas production. For the next nine months, Bonterra has secured a WTI price between $60.00 USD to $93.75 USD per bbl on 2,889 bbls per day. For the period of July 1, 2024, to December 31, 2024, Bonterra has also secured an average WTI to Edmonton par differential price of $2.60 USD per bbl on 1,000 barrels of oil per day. In addition, the Company has secured natural gas prices between $2.04 to $2.71 per GJ on 12,831 GJ per day to the end of 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.

Bonterra is committed to employing local services in Drayton Valley and communities surrounding its newly acquired assets. The Company will continue to be a key economic contributor to rural and surrounding communities located within central and eventually northern Alberta.

Production

	Three months ended		
	March 31, 2024	December 31, 2023	March 31, 2023
Crude oil (barrels per day)	**6,622**	7,306	7,068
NGLs (barrels per day)	**1,468**	1,619	1,155
Conventional natural gas (MCF per day)	**36,594**	37,214	31,448
Average BOE per day	**14,189**	15,128	13,464

The Company averaged 14,189 BOE per day of production in the first three months of 2024, compared to 13,464 BOE per day in the same period of 2023, an increase of 725 BOE per day or five percent. The increase was primarily due to Bonterra's successful 2023 front loaded capital program and was partially offset by approximately 260 BOE per day of shut-in volumes in Q1 2024 attributable to extremely cold weather in January. Quarter-over-quarter, production decreased by 939 BOE per day, primarily due to the shut-in production in Q1 2024 and less production from new wells into Q1 2024 as the majority of Bonterra's 2023 capital expenditures were incurred prior to Q4 2023.

Included in Q1 2024, was approximately 330 BOE per day of production for the month of March or 112 BOE per day for the quarter from the Charlie Lake Asset Acquisition. A five-well development drilling program on this property is expected to commence in the second quarter of 2024. Also, in Q2 2024, the Company has tied-in and will bring on production its first exploratory Montney well.

Cash Netback

$ per BOE	**March 31, 2024**	Three months ended December 31, 2023	March 31, 2023
Production volumes (BOE)	**1,291,200**	1,391,754	1,211,735
Gross production revenue	**53.12**	58.73	63.76
Realized gain (loss) on risk management contracts	**0.29**	0.02	(0.09)
Royalties	**(6.98)**	(9.53)	(11.23)
Production costs	**(17.98)**	(13.37)	(17.54)
Field netback	**28.45**	35.85	34.90
General and administrative	**(2.93)**	(3.72)	(2.32)
Disposal of investments	**1.12**	-	-
Interest and other	**(3.32)**	(3.09)	(4.14)
Current income tax	**(2.41)**	0.02	(4.23)
Cash netback	**20.91**	29.06	24.21

Cash netbacks decreased in Q1 2024 on a BOE basis compared to the same period in 2023 primarily due to lower realized commodity prices. This was partially offset by lower royalties, current income tax costs and proceeds on the disposal of marketable securities.

Oil and Gas Sales

	March 31, 2024	Three months ended December 31, 2023	March 31, 2023
Revenue - oil and gas sales ($ 000s)			
Light oil	**53,607**	65,209	60,883
NGL	**6,157**	7,168	5,668
Conventional natural gas	**8,825**	9,362	10,712
	68,589	81,739	77,263
Average realized prices:			
Light oil ($ per barrel)	**88.96**	97.01	95.71
NGL ($ per barrel)	**46.08**	48.12	54.54
Conventional natural gas ($ per MCF)	**2.65**	2.73	3.78
Average ($ per BOE)	**53.12**	58.73	63.76
Average BOE per day	**14,189**	15,128	13,464

Revenue from oil and gas sales in the first three months of 2024 decreased by $8.7 million, or 11 percent, compared to the same period in 2023. This decrease was primarily driven by a 17 percent reduction in Bonterra’s average realized commodity prices caused primarily by a 202 percent increase in the Differential on light sweet crude oil, which was partially offset by a five percent increase in production over the same period. Quarter-over-quarter, revenue from oil and gas sales decreased due to lower commodity prices, and a decrease in production.

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

Royalties

($ 000s)	**March 31, 2024**	Three months ended December 31, 2023	March 31, 2023
Crown royalties	**6,080**	9,448	9,966
Freehold, gross overriding and other royalties	**2,930**	3,812	3,637
Total royalties	**9,010**	13,260	13,603
Crown royalties - percentage of revenue	**8.9**	11.6	12.9
Freehold, gross overriding and other royalties - percentage of revenue	**4.3**	4.7	4.7
Royalties - percentage of revenue	**13.2**	16.3	17.6
Royalties $ per BOE	**6.98**	9.53	11.23

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 Q1 2024 decreased by $4.25 per BOE compared to Q1 2023 and $2.55 per BOE compared to Q4 2023 primarily due to a decrease in commodity prices.

Production Costs

($ 000s except $ per BOE)	**March 31, 2024**	Three months ended December 31, 2023	March 31, 2023
Production costs	**23,215**	18,603	21,250
$ per BOE	**17.98**	13.37	17.54

Production costs for the first three months of 2024 increased on a BOE basis compared to the same period of 2023, primarily due to more well maintenance as the Company incurred more service rig costs and other repairs due to fewer wells being worked over in Q4 2023. In addition, the Company incurred more field labour costs from increased activity in the field and an increase in estimated carbon taxes. This was partially offset by a decrease in power costs due to lower power rates.

Quarter-over-quarter, production costs increased on a BOE basis due to more service rig costs, labour and power costs.

Other Income

($ 000s)	**March 31, 2024**	Three months ended December 31, 2023	March 31, 2023
Investment income	**132**	120	99
Administrative income	**60**	120	73
Gain on sale of property	**153**	-	-
Government grant in-kind	**-**	-	782
Deferred consideration	**225**	274	250
Realized gain (loss) on risk management contracts	**370**	28	(111)
Unrealized gain (loss) on risk management contracts	**(2,662)**	4,617	1,506
	(1,722)	5,159	2,599

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.

During the quarter, the Company disposed of all of its investments in marketable securities. The dispositions resulted in a gain net of tax of $271,000 and was 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.

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 April 1, 2024 to December 31, 2024 and are for a total of 678,400 barrels of light crude oil (approximately 2,467 barrels of oil per day for the next nine months) at fixed WTI prices ranging from $60.00 USD to $93.75 USD per barrel. Bonterra has also entered into financial derivative contracts for the period of July 1, 2024 to December 31, 2024 for a fixed differential from WTI to Edmonton Par price on 184,000 barrels of oil (approximately 1,000 barrels of oil per day) at an average price of $2.60 USD per barrel. In addition, the Company has entered into financial derivatives on natural gas prices between $2.04 and $2.71 on 10,331 GJ per day for the period from April 1, 2024 to December 31, 2024. These contracts are not considered normal sales contracts and are recorded at fair value.

General and Administrative ("G&A") Expense

	Three months ended		
($ 000s except $ per BOE)	**March 31, 2024**	December 31, 2023	March 31, 2023
Employee compensation	**1,817**	3,937	1,883
Office and administrative	**1,971**	1,234	923
Total G&A	**3,788**	5,171	2,806
$ per BOE	**2.93**	3.72	2.32

Employee compensation expense in the first three months of 2024 is comparable to the same period in 2023. Quarter-over-quarter employee compensation expense decreased primarily due to a bonus accrual and severance paid in the fourth quarter of 2023.

Office and administrative expense increased in the first three months of 2024 compared to the same period in 2023 primarily due to an increase in administrative costs in relation to the Charlie Lake Asset Acquisition and an increase in the provision for the allowance for doubtful accounts.

Finance Costs

	Three months ended		
($ 000s except $ per BOE)	**March 31, 2024**	December 31, 2023	March 31, 2023
Interest on bank debt and subordinated debt	**746**	641	972
Subordinated debentures	**1,328**	1,327	1,328
Subordinated term debt	**2,386**	2,596	2,898
Interest expense	**4,460**	4,564	5,198
$ per BOE	**3.45**	3.28	4.29
Accretion of decommissioning liabilities	**890**	943	924
Accretion on subordinated debentures	**737**	790	611
Accretion on subordinated term debt	**470**	496	557
Total finance costs	**6,557**	6,793	7,290

Interest on bank debt was lower in Q1 2024 compared to the same period in 2023 due to the increase in bank debt from the Charlie Lake Asset Acquisition occurring towards the end of the quarter.

Subordinated unsecured term debt on March 31, 2024 was $71.3 million (December 31, 2023 - $76 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 March 31, 2024, 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 March 31, 2024, 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 March 31, 2024, 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 March 31, 2024, 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 $709,000.

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

Share-Option Compensation

		Three months ended	
	March 31,	December 31,	March 31,
($ 000s)	**2024**	2023	2023
Share-option compensation	**664**	946	1,109

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 March 31, 2024, the Company has an unamortized expense of $2.6 million, of which $1.4 million will be recognized in the remainder of 2024; $0.9 million in 2025 and $0.3 million thereafter. For more information about options issued and outstanding, refer to Note 8 of the March 31, 2024, condensed financial statements.

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

		Three months ended	
	March 31,	December 31,	March 31,
($ 000s)	**2024**	2023	2023
Depletion and depreciation	**22,167**	24,071	21,817

The provision for depletion and depreciation (“D&D”) increased slightly due to an increase in production from the same period in 2023.

There were no indicators of impairment identified for each of the periods ended.

Taxes

The Company recorded a total income tax expense of $0.6 million in Q1 2024 (Q1 2023 – $4.3 million). The decrease in income tax expense compared to the same period in 2023 is due to reduced earnings before income taxes. Included in the 2024 current income tax provision of $3.1 million, is $1.1 million payable to the province of Alberta and $2.0 million to the Federal government.

For additional information regarding income taxes, see Note 7 of the March 31, 2024, condensed financial statements.

Net Earnings

	Three months ended		
($ 000s except $ per share)	**March 31, 2024**	December 31, 2023	March 31, 2023
Net earnings	**848**	14,973	7,640
$ net earnings per share - basic	**0.02**	0.40	0.21
$ net earnings per share - diluted	**0.02**	0.40	0.20

Net earnings for Q1 2024 decreased by $6.8 million compared to the same period in 2023. The decrease in net earnings was primarily attributed to lower commodity prices realized and an unrealized loss on risk management contracts compared to an unrealized gain on risk management contracts in the prior period. This was partially offset by an increase in production, decrease in royalties and the tax provision.

Net earnings decreased in Q1 2024 compared to Q4 2023 due to lower oil and gas sales, increased production costs and an unrealized loss on risk management contracts instead of an unrealized gain on risk management contracts in Q4 2023. This was partially offset by a decrease in royalties and the tax provision.

Other Comprehensive Income

Other comprehensive income for 2024 consists of an unrealized loss before tax on investments of $186,000 relating to a decrease in the investments' fair value (December 31, 2023 – $394,000 gain). Other comprehensive income also consisted of a realized gain of $271,000 net of tax from the divestment of all the investments held by the Company. The realized gain resulted in transferring the remaining accumulated other comprehensive income to retained earnings.

Cash Flow From Operations

	Three months ended		
($ 000s except $ per share)	**March 31, 2024**	December 31, 2023	March 31, 2023
Cash flow from operations	**21,654**	44,596	24,018
$ per share - basic	**0.58**	1.20	0.65
$ per share - diluted	**0.58**	1.19	0.64

In Q1 2024, cash flow from operations decreased by $2.4 million compared to 2023. This was primarily due to a decrease in realized commodity prices.

Quarter-over-quarter, cash flow from operations decreased primarily due to lower oil and gas sales, an increase in production costs and a decrease in non-cash working capital.

Liquidity and Capital Resources

Net Debt to EBITDA

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 EBITDA ratio as of March 31, 2024 was 1.0 (versus 0.8 at December 31, 2023). EBITDA is defined as net income for the period excluding finance costs, provision for current and deferred taxes, depletion and depreciation, share-option compensation, gain or loss on sale of assets and impairment of assets. The increase in Bonterra's net debt to EBITDA ratio is primarily due to an increase in net debt from the Charlie Lake Asset Acquisition and a decrease in EBITDA from lower commodity prices. The net debt to EBITDA ratio is expected to improve in subsequent quarters due to the Company's focus on debt reduction paired with increased production and future cash flow protection from having at least 30 percent of Bonterra's forecasted oil and natural gas production hedged over the next nine months.

For more information about net debt to EBITDA, please see Note 11 of the March 31, 2024 condensed financial statements.

Working Capital Deficiency and Net Debt

($ 000s)	**March 31, 2024**	December 31, 2023	March 31, 2023
Working capital deficiency	**34,284**	19,975	53,889
Bank debt	**38,688**	14,822	12,388
Subordinated debentures	**54,650**	52,585	51,708
Subordinated term debt (long-term portion)	**48,738**	53,018	65,689
Net debt	**176,360**	140,400	183,674

Net debt is a combination of bank debt, subordinated debentures, subordinated term debt and working capital. Subsequent to March 31, 2024, the Company's Bank Facility has a maturity date of April 30, 2026 and is recorded as a long-term liability at March 31, 2024 and December 31, 2023. 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 March 31, 2024 decreased by $7.3 million compared to March 31, 2023, primarily due to a 45 percent reduction in capital expenditures in Q1 2024 compared to Q1 2023 which was partially offset by the $23.9 million cash consideration for the Charlie Lake Asset Acquisition. The Company intends to continue its focus on net debt reduction and has hedged over 40 percent of its forecasted oil production and over 30 percent of its natural gas production over the next nine months to protect cash flow over this period.

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 40 percent of its estimated oil and 30 percent of its estimated natural gas production to the end of 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 March 31, 2024 condensed financial statements.

Capital Expenditures and Acquisition

($ 000s)	**March 31, 2024**	March 31, 2023
Exploration and Evaluation		
Land and lease	**462**	484
Property, Plant and Equipment		
Operated drilling, completing and equipping costs	**26,977**	48,423
Infrastructure, recompletions and other	**5,485**	9,090
Non-operated capital	**-**	2,226
	32,462	59,739
Total capital expenditures	**32,924**	**60,223**

During the three months ended March 31, 2024, the Company incurred capital expenditures of $32.9 million (March 31, 2023 - $60.2 million). Of the total capital invested, $27.0 million was directed to the drilling of 11 gross (10.5 net) operated wells and the completion, and the equip and tie-in of gross 11 (10.0 net) operated wells, of which four gross (3.6 net) of those wells were drilled in Q4 2023. The remaining four gross (4.0 net) operated wells were placed on production early in the second quarter of 2024. An additional $5.9 million (March 31, 2023 - $11.8 million) was spent primarily on related land and lease, infrastructure, recompletions, and non-operated capital programs.

On March 1, 2024, Bonterra closed an acquisition to purchase largely undeveloped petroleum and natural gas assets in northern Alberta, for cash consideration of $23.6 million and $0.3 million in non-core land and leases, after closing adjustments. The Charlie Lake Asset Acquisition has been accounted for as an asset acquisition, which resulted in a $24.2 million increase in PP&E and the assumption of $0.3 million in decommissioning liabilities. The assets acquired currently produce 330 BOE per day and provide a portfolio of high-quality future drilling locations and reserves, establishing a new core operating area for the Company.

Drilling Statistics

	Three months ended					
		March 31, 2024		December 31, 2023		March 31, 2023
	Gross[(1)]	**Net[(2)]**	Gross[(1)]	Net[(2)]	Gross[(1)]	Net[(2)]
Crude oil horizontal-operated	**11**	**10.5**	3	2.8	22	20.6
Crude oil horizontal-non-operated	**-**	**-**	5	1.0	6	1.1
Total	**11**	**10.5**	8	3.8	28	21.7
Success rate		**100%**		100%		100%

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

Decommissioning Liabilities

The Company spent $1.0 million on decommissioning activities during the quarter ended March 31, 2024 (March 31, 2023 - $3.5 million). The Company estimates approximately $7.0 million will be spent on decommissioning activities in 2024.

Bank Debt and Subordinated Term Debt

Bank debt represents the outstanding amounts drawn on the Company's Bank Facility. As at March 31, 2024, 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 March 31, 2024 was $38.6 million (December 31, 2023 - $14.8 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. As at March 31, 2024, 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. Subsequent to March 31, 2024, the Company renewed its Bank Facility of $110 million, comprised of a $85.0 million syndicated revolving credit facility and a $25.0 million non-syndicated revolving credit facility. The new terms of the Bank Facility provide that the loan facility will revolve to April 30, 2025, with a maturity date of April 30, 2026.

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 March 31, 2024 (December 31, 2023 - $2.1 million). Security for the Bank Facility consists of various floating demand debentures totaling $750 million (December 31, 2023 - $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 principal balance is to be paid.

The amount drawn under the Subordinated Term Debt at March 31, 2023 was $71.3 million (December 31, 2023 - $76.0 million). Based on the calculated fair value of the debt as at March 31, 2024, 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, 2023 - $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, 2023 and evaluated on strip commodity pricing, divided by the consolidated debt of the Company. The ratio is calculated and revaluated for strip pricing on June 30 and December 31 period ends.

As at March 31, 2024, 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 March 31, 2024 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, 2023	**37,253,252**	**783,185**
Issued pursuant to the Company's share option plan	**11,723**	**-**
Transfer from contributed surplus to share capital		**60**
Balance, March 31, 2024	**37,264,975**	**783,245**

A total of 2,753,000 Warrants are outstanding as at March 31, 2024, 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 3,726,497 (December 31, 2023 – 3,725,325) 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 5 of the March 31, 2024, condensed financial statements.

Quarterly Financial Information

	2024	2023			
For the periods ended ($ 000s except $ per share)	**Q1**	Q4	Q3	Q2	Q1
Revenue - oil and gas sales	**68,589**	81,739	84,909	75,606	77,263
Cash flow from operations	**21,654**	44,596	37,715	33,854	24,018
Net earnings	**848**	14,973	13,486	8,844	7,640
Per share - basic	**0.02**	0.40	0.36	0.24	0.21
Per share - diluted	**0.02**	0.40	0.36	0.24	0.20

	2022			
For the periods ended ($ 000s except $ per share)	Q4	Q3	Q2	Q1
Revenue - oil and gas sales	87,154	88,827	116,674	91,542
Cash flow from operations	35,494	48,810	58,307	40,942
Net earnings	17,264	17,696	33,544	10,519
Per share - basic	0.47	0.49	0.93	0.30
Per share - diluted	0.46	0.47	0.88	0.29

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.

Contractual Obligations and Commitments

At March 31, 2024, Bonterra's total contractual obligations and commitments were $248.4 million. These include obligations and commitments in place as of December 31, 2023, changes in accrued interest in the period, as well as additional firm service commitments entered into during the three months ended March 31, 2024. For more information, refer to Note 12 "Commitments and Financial Liabilities" of the March 31, 2024, condensed financial statements.

Off-Balance Sheet Financing

Bonterra does not have any guarantees or off-balance sheet arrangements that have been excluded from the annual statement of financial position or balance sheet other than commitments disclosed in Note 12 of the March 31, 2024 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; environmental and safety risks; failure to realize benefits of acquisitions and dispositions; reliance on third party gathering, processing and pipeline systems; changes to applicable royalty regimes and environmental legislation and regulations; cyber security risks; and reliance on key personnel.

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, 2023, which can be accessed on its website www.bonterraenergy.com or on SEDAR+ at www.sedarplus.ca.

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, 2023, which can be accessed on its website at www.bonterraenergy.com or on SEDAR+ at www.sedarplus.ca.

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; earnings sensitivity to interest rates; abandonment and reclamation activities and targets; expected cash provided by continuing operations; return of capital strategy; 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 March 31, 2024 requires that Bonterra disclose in the interim MD&A any changes in the Company’s internal control over financial reporting that occurred during the period that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting. Bonterra confirms that no such changes were made to its internal controls over financial reporting during the three months ended March 31, 2024.

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

Management's Responsibility for Financial Statements

The information provided in this report, including the financial statements, is the responsibility of management. The timely preparation of the financial statements requires that management make estimates and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates primarily relate to unsettled transactions and events as at the date of the financial statements. Accordingly, actual results may differ from estimated amounts as future confirming events occur. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

The audit committee has reviewed these condensed financial statements with management and has reported to the Board of Directors. The Board of Directors has approved the financial statements as presented in this interim report.

CONDENSED STATEMENT OF FINANCIAL POSITION

As at (unaudited) ($ 000s)	Note	**March 31, 2024**	December 31, 2023
Assets			
Current			
Accounts receivable		**27,477**	25,364
Crude oil inventory		**947**	893
Prepaid expenses		**6,313**	6,912
Risk management contract	11	**-**	2,357
Investments		**-**	1,634
		34,737	37,160
Exploration and evaluation assets		**6,061**	5,785
Property, plant and equipment	3	**943,666**	924,925
		984,464	967,870
Liabilities			
Current			
Accounts payable and accrued liabilities		**48,840**	37,226
Risk management contract	11	**305**	-
Subordinated term debt	6	**19,000**	19,000
Deferred consideration		**876**	909
		69,021	57,135
Bank debt	4	**38,688**	14,822
Subordinated debentures	5	**54,650**	52,585
Subordinated term debt	6	**48,738**	53,018
Deferred consideration		**7,979**	8,170
Decommissioning liabilities		**107,520**	123,108
Deferred tax liability	7	**128,263**	130,774
		454,859	439,612
Shareholders' equity			
Share capital	8	**783,245**	783,185
Contributed surplus		**34,627**	34,023
Warrants	8	**6,053**	6,053
Accumulated other comprehensive income		**-**	436
Deficit		**(294,320)**	(295,439)
		529,605	528,258
		984,464	967,870
Commitments and contingencies	12		
Subsequent events	4, 11		

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended March 31 (unaudited)			
($ 000s, except $ per share)	Note	**2024**	2023
Revenue			
Oil and gas sales, net of royalties	9	**59,579**	63,660
Other income		**345**	954
Deferred consideration		**225**	250
Gain (loss) on risk management contracts	11	**(2,292)**	1,395
		57,857	66,259
Expenses			
Production		**23,215**	21,250
Office and administration		**1,971**	923
Employee compensation		**1,817**	1,883
Finance costs	10	**6,557**	7,290
Share-option compensation		**664**	1,109
Depletion and depreciation	3	**22,167**	21,817
		56,391	54,272
Earnings before income taxes		**1,466**	11,987
Taxes			
Current income tax expense		**3,108**	5,126
Deferred income tax expense (recovery)		**(2,490)**	(779)
		618	4,347
Net earnings for the period		**848**	7,640
Other comprehensive loss			
Unrealized loss on investments		**(186)**	(437)
Deferred taxes on unrealized loss on investments		**21**	51
Realized gains on avaliable for sale investments transferred to net earnings		**(306)**	-
Deferred taxes on realized gains on avaliable for sale investments transferred to net earnings		**35**	-
Other comprehensive loss for the period		**(436)**	(386)
Total comprehensive income for the period		**412**	7,254
Net earnings per share - basic	8	**0.02**	0.21
Net earnings per share - diluted	8	**0.02**	0.20
Comprehensive income per share - basic	8	**0.01**	0.20
Comprehensive income per share - diluted	8	**0.01**	0.19

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF CASH FLOW

For the three months ended March 31 (unaudited)			
($ 000s)	Note	**2024**	2023
Operating activities			
Net earnings		**848**	7,640
Items not affecting cash			
Deferred income tax recovery		**(2,490)**	(779)
Share-option compensation		**664**	1,109
Investment income		**(132)**	(99)
Finance costs		**6,557**	7,290
Unrealized loss (gain) on risk management contracts	11	**2,662**	(1,506)
Deferred consideration		**(225)**	(250)
Depletion and depreciation		**22,167**	21,817
Gain on sale of property		**(153)**	-
Government grant in-kind		**-**	(782)
Decommissioning expenditures		**(1,010)**	(3,465)
Interest paid	10	**(3,132)**	(3,870)
Changes in non-cash working capital accounts	10	**(4,102)**	(3,087)
Cash provided by operating activities		**21,654**	24,018
Financing activities			
Increase (decrease) of bank debt	4	**23,866**	(5,213)
Subordinated term debt	6	**(4,750)**	(5,943)
Stock option proceeds		**-**	560
Cash provided (used) in financing activities		**19,116**	(10,596)
Investing activities			
Investment income received		**132**	99
Exploration and evaluation expenditures		**(462)**	(484)
Property, plant and equipment expenditures	3	**(32,462)**	(59,739)
Oil and gas property acquisition	3	**(23,586)**	-
Proceeds on sale of investments		**1,448**	-
Changes in non-cash working capital accounts	10	**14,160**	46,702
Cash used in investing activities		**(40,770)**	(13,422)
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		**3,452**	5,888

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF CHANGES IN EQUITY

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

	Numbers of common shares outstanding (Note 8)	**Share capital (Note 8)**	**Contributed surplus [1]**	**Warrants**	**Accumulated other comprehensive income (loss)[2]**	**Deficit**	**Total shareholders' equity**
January 1, 2023	36,912,892	781,679	31,705	6,053	784	(340,382)	479,839
Share-option compensation			1,109				1,109
Exercise of options	271,144	560					560
Transfer to share capital on exercise of options		858	(858)				-
Comprehensive income (loss)					(386)	7,640	7,254
March 31, 2023	37,184,036	783,097	31,956	6,053	398	(332,742)	488,762
Share-option compensation			2,119				2,119
Exercise of options	69,216	36					36
Transfer to share capital on exercise of options		52	(52)				-
Comprehensive income					38	37,303	37,341
December 31, 2023	37,253,252	783,185	34,023	6,053	436	(295,439)	528,258
Share-option compensation			664				664
Exercise of options	11,723	-					-
Transfer to share capital on exercise of options		60	(60)				-
Comprehensive income (loss)					(165)	848	683
Transfer on realized gain on investments, net of tax					(271)	271	-
March 31, 2024	37,264,975	783,245	34,627	6,053	-	(294,320)	529,605

(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 March 31, 2024 and December 31, 2023 for the three months ended March 31, 2024 and March 31, 2023 (unaudited).

1. NATURE OF BUSINESS AND SEGMENT INFORMATION

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

2. BASIS OF PREPARATION AND FUTURE OPERATIONS

a) Statement of Compliance

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

The accounting policies and method of computation followed in the preparation of the condensed financial statements are the same as those followed in the preparation of Bonterra's 2023 audited annual financial statements, except as denoted below. These condensed financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the 2023 audited annual financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

b) Adopted Accounting Pronouncements

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

On January 1, 2024 The Company adopted the scope amendments to IAS 1 – "Presentation of Financial Statements" to clarify that liabilities are classified as either current or non-current, depending on the existence of the substantive right at the end of the reporting period for an entity to defer settlement of the liability for at least twelve months after the reporting period. There was no material impact to Bonterra's financial statements from its adoption.

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

On January 1, 2024 the Company adopted amendments to IFRS 16 – Leases "Lease Liability in a Sale and Leaseback" transactions, that specify the requirement that a seller-lessee uses in its subsequent measurement of the lease liability in a sale and leaseback transaction to ensure the seller-lessee does not recognize any amount of the gain or loss that relates to the right of use it retains. There was no material impact to Bonterra's financial statements from its adoption.

3. PROPERTY, PLANT AND EQUIPMENT

Cost ($ 000s)	Oil and gas properties	Production facilities	Furniture fixtures & other equipment	Total property plant & equipment
Balance at December 31, 2023	1,655,513	446,131	2,811	2,104,455
Additions	22,134	10,295	33	32,462
Acquisition	19,354	4,880	-	24,234
Adjustment to decommissioning liabilities	(15,775)	-	-	(15,775)
Balance at March 31, 2024	**1,681,226**	**461,306**	**2,844**	**2,145,376**

Accumulated depletion and depreciation ($ 000s)	Oil and gas properties	Production facilities	Furniture fixtures & other equipment	Total property plant & equipment
Balance at December 31, 2023	(962,387)	(215,046)	(2,097)	(1,179,530)
Depletion and depreciation	(17,767)	(4,372)	(28)	(22,167)
Disposal and other	(13)	-	-	(13)
Balance at March 31, 2024	**(980,167)**	**(219,418)**	**(2,125)**	**(1,201,710)**

Carrying amounts as at: ($ 000s)				
December 31, 2023	693,126	231,085	714	924,925
March 31, 2024	**701,059**	**241,888**	**719**	**943,666**

Asset Acquisition of Oil and Natural Gas Property

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

Impairment

There were no indicators of impairment identified for each of the three months ended March 31, 2024 and 2023.

4. BANK DEBT

As at March 31, 2024, the Company had a total Bank Facility of $110,000,000 (December 31, 2022 - $110,000,000), comprised of a $85,000,000 syndicated revolving credit facility, and a $25,000,000 non-syndicated revolving credit facility. The amount drawn under the total Bank Facility at March 31, 2024 was $38,688,000 (December 31, 2023 - $14,822,000). The amounts borrowed under the total Bank Facility bear interest at a floating rate based on the applicable Canadian prime rate or Banker's Acceptance rate, plus between 2.00 percent and 7.00 percent, depending on the type of borrowing and the Company's consolidated debt to EBITDA ratio. EBITDA is defined as net income for the twelve month trailing period excluding finance costs, provision for current and deferred taxes, depletion and depreciation, share-option compensation, gain or loss on sale of assets and impairment of assets. As at March 31, 2024, 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. Subsequent to March 31, 2024, the Company renewed its Bank Facility of $110,000,000, comprising of a $85,000,000 syndicated revolving credit facility and a $25,000,000 non-syndicated revolving credit facility. The new terms of the Bank provide that the loan facility will revolve to April 30, 2025, with a maturity date of April 30, 2026.

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 March 31, 2024 (December 31, 2023 - $2,130,000). Security for the Bank Facility consists of various floating demand debentures totaling $750,000,000 (December 31, 2023 - $750,000,000) over all of the Company's assets and a general security agreement with first ranking over all personal and real property.

Financial Covenants

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

- Consolidated debt to trailing twelve months EBITDA ratio shall not exceed 2.50:1.00; and
- Asset coverage ratio of not less 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, 2023 and evaluated on strip commodity pricing, divided by the consolidated debt of the Company. The ratio is calculated and revaluated for strip pricing on June 30 and December 31 period ends.

As at March 31, 2024, Bonterra was in compliance with all financial covenants on its Bank Facility.

5. SUBORDINATED DEBENTURES

As at March 31, 2024 the Company has a total of 59,000 senior unsecured subordinated debenture units outstanding. Each Unit is comprised of: (i) one senior unsecured debenture with a par value of $1,000 per note and bearing interest at 9.0 percent per annum, payable semi-annually; and (ii) 56 common share purchase warrants of Bonterra ("Warrants"). The debentures mature on October 20, 2025 and all or a portion of the principal amount outstanding can be repaid without penalty after October 20, 2024, however, all interest due to the maturity date must be paid. A total of 3,304,000 Warrants were issued, entitling the holder to purchase one common share of Bonterra for each Warrant at a price of $7.75, until October 20, 2025. In the first three months of 2024 $1,328,000 of interest was accrued (March 31, 2023 - $1,328,000).

The unsecured subordinated debentures were determined to be a compound instrument with a debt and equity component. Based on the calculated fair value of the debentures, the effective interest rate was determined on issuance to be 15.6 percent using the effective interest rate method, by discounting future payments of interest and principal with the residual value allocated to Warrants and issue costs. The value of the debt will accrete up to the principal balance at maturity. For more information about Warrants please see Note 9.

6. SUBORDINATED TERM DEBT

As at March 31, 2024 the Company has a second lien, non-revolving subordinated term debt facility ("Subordinated Term Debt"). The amount drawn under the Subordinated Term Debt at March 31, 2024 was $71,250,000 (December 31, 2023 - $76,000,000). The amounts borrowed under the Subordinated Term Debt bear interest at a fixed rate of 11.70 percent to be applied to 25 percent of the term facility principle and a floating interest rate of Canadian Prime Rate plus 6.25 percent on the remaining 75 percent of the principal amount. The Company is required to make mandatory principal repayments equal to $4.75 million, payable on the last banking day of February, May, August and November of each calendar year, commencing on

February 28, 2023. The term debt has a maturity date of November 30, 2026 on which the remaining outstanding principle balance is to be paid.

Based on the calculated fair value of the Subordinated Term Debt as at March 31, 2024, 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 the first three months of 2024 was $2,386,000 (March 31, 2023 - $2,898,000).

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

As at March 31, 2024, Bonterra was in compliance with all financial covenants on its second lien Subordinated Term Debt facility (as described in Note 4).

7. INCOME TAXES

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

($ 000s)	Rate of Utilization (%)	Amount
Undepreciated capital costs	7-100	75,899
Share issue and financing costs	20	4,497
Canadian oil and gas property expenditures	10	59,398
Canadian development expenditures	30	149,803
Canadian exploration expenditures	100	9,049
		298,646

The Company has $64,111,000 (December 31, 2023 - $64,725,000) of capital losses carried forward which can only be claimed against taxable capital gains.

8. SHAREHOLDERS' EQUITY

Authorized

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

Issued and fully paid - common shares	**Number**	**Amount ($ 000s)**
Balance, December 31, 2023	**37,253,252**	**783,185**
Issued pursuant to the Company's share option plan	**11,723**	**-**
Transfer from contributed surplus to share capital		**60**
Balance, March 31, 2024	**37,264,975**	**783,245**

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

The weighted average common shares used to calculate basic and diluted net earnings per share for the three months ended March 31, are as follows:

	2024	2023
Basic shares outstanding	**37,255,828**	37,078,018
Dilutive effect of share options and warrants[(1)]	**66,270**	224,277
Diluted shares outstanding	**37,322,098**	37,302,295

(1) The Company did not include 5,810,500 share-options and warrants (March 31, 2023 – 5,003,500) 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 March 31, 2024 and changes during the period are presented below:

	Number of warrants	**Weighted exercise price**
As at March 31, 2024 and December 31, 2023	2,753,000	$7.75

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

Options

The Company provides an equity settled option plan for its directors, officers, and employees. Under the plan, the Company may grant options for up to 3,726,498 (December 31, 2023 – 3,725,325 common shares). The exercise price of each option granted cannot be lower than the market price of the common shares on the date of grant and the option's maximum term is five years.

A summary of the status of the Company's stock options as of March 31, 2024 and changes during the period are presented below:

	Number of options	**Weighted average exercise price**
At December 31, 2023	3,260,000	$6.87
Options granted	12,500	5.91
Options exercised[(1)]	(35,000)	3.84
Options forfeited	(46,500)	6.36
At March 31, 2024	3,191,000	$6.91

(1) 35,000 options were exercised under the cashless option method, which resulted in 11,723 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 March 31, 2024:

	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	163,500	0.6 years	$ 3.28	120,000	$ 2.80
5.01 - 10.00	2,982,500	3.8 years	7.02	959,505	8.22
10.01 - 15.00	45,000	1.2 years	12.32	15,000	12.32
$ 1.00 - $ 15.00	3,191,000	3.6 years	$ 6.91	1,094,505	$ 7.68

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 2024, the Company granted 12,500 options with an estimated fair value of $23,000 or $1.81 per option using the Black-Scholes option pricing model with the following key assumptions:

	March 31, 2024
Weighted-average risk free interest rate (%)(1)	**3.96**
Weighted-average expected life (years)	**2.0**
Weighted-average volatility (%)(2)	**50.64**
Forfeiture rate (%)	**6.24**

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

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

9. OIL AND GAS SALES, NET OF ROYALTIES

($ 000s)	**March 31, 2024**	March 31, 2023
Oil and gas sales		
Crude oil	**53,607**	60,883
Natural gas liquids	**6,157**	5,668
Natural gas	**8,825**	10,712
	68,589	77,263
Less royalties:		
Crown	**(6,080)**	(9,966)
Freehold, gross overriding royalties and other	**(2,930)**	(3,637)
	(9,010)	(13,603)
Oil and gas sales, net of royalties	**59,579**	63,660

10. SUPPLEMENTAL CASH FLOW INFORMATION

($ 000s)	**March 31, 2024**	March 31, 2023
Change in non-cash working capital:		
Accounts receivable	**(2,113)**	(2,668)
Crude oil inventory	**(42)**	46
Prepaid expenses	**599**	1,459
Investment tax credit receivable	**-**	3,801
Abandonment deposit	**-**	(3)
Accounts payable and accrued liabilities	**11,614**	40,980
	10,058	43,615
Changes related to:		
Operating activities	**(4,102)**	(3,087)
Investing activities	**14,160**	46,702
	10,058	43,615

Finance expense

($ 000s)	**March 31, 2024**	March 31, 2023
Interest expense:		
Bank debt	**746**	972
Subordinated debenture	**1,328**	1,328
Subordinated term debt	**2,386**	2,898
	4,460	5,198
Accretion:		
Decommissioning liabilities	**890**	924
Subordinated debentures	**737**	611
Subordinated term debt	**470**	557
	2,097	2,092
Total finance costs	**6,557**	7,290
Interest expense	**4,460**	5,198
Interest accrued	**(1,328)**	(1,328)
Interest paid	**3,132**	3,870

11. FINANCIAL RISK MANAGEMENT

Financial Risk Factors

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

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

The Company's activities result in exposure to a number of financial risks including market risk (commodity price risk, interest rate risk, and foreign exchange risk), credit risk, 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. The Company does not speculatively trade in risk management contracts. The Company's risk management contracts are entered into in order to manage the risks relating to commodity prices from its business activities.

Liquidity Risk Management

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

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

Credit Risk

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

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

- Agreements for product sales are primarily on 30-day renewal terms. Of the $27,477,000 accounts receivable balance at March 31, 2024 (December 31, 2023 - $25,364,000) over 84 percent (December 31, 2023 – 83 percent) relate to product sales or risk management contracts with national and international banks and oil and gas companies.

On a quarterly basis, Bonterra assesses if there has been any impairment of the financial assets of the Company. During the three months ended March 31, 2024, there was no material impairment provision required on any of the financial assets of the Company. Bonterra does have credit risk exposure, as the majority of the Company's accounts receivable are with counterparties having similar characteristics. However, payments from 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 March 31, 2024, approximately $1,678,000 or 6.1 percent of the Company's total accounts receivable are aged over 90 days and considered past due (December 31, 2023 - $591,000 or 2.3 percent). The majority of these accounts are due from various joint venture partners. The Company actively monitors past due accounts and takes the necessary actions to expedite collection, which can include withholding production or netting payables when the accounts are with joint venture partners. Should the Company determine that the ultimate collection of a receivable is in doubt, it will provide the necessary provision in its allowance for doubtful accounts with a corresponding charge to earnings. If the Company subsequently determines an account is uncollectable, the account is written off with a corresponding charge to the allowance account. The Company's allowance for doubtful accounts balance at March 31, 2024 is $2,387,000 (December 31, 2023 - $1,878,000) with the expense being included in general and administrative expenses. There were no material accounts written off during the period.

The maximum exposure to credit risk is represented by the carrying amounts of accounts receivable. There are no material financial assets that 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 its capital structure based on the ratio of net debt (total debt adjusted for working capital) to EBITDA. This ratio is calculated using each quarter end net debt divided by the preceding twelve months' EBITDA. At March 31, 2024, the Company had a net debt to EBITDA level of 1.0:1 compared to 0.8:1 as at December 31, 2023. The increase in Bonterra's net debt to EBITDA ratio is primarily due to an increase in net debt relating to the Charlie Lake Asset Acquisition and a decrease in EBITDA from lower commodity prices. To provide cashflow protection the Company has hedged at least 30 percent of its forecasted oil and natural gas production over the next nine months.

Section (a) of this note provides 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 EBITDA ratio

The net debt and EBITDA amounts are as follows:

($ 000s)	**March 31, 2024**	December 31, 2023
Bank debt	**38,688**	14,822
Subordinated debentures	**54,650**	52,585
Subordinated term debt[1]	**48,738**	53,018
Current liabilities	**69,021**	57,135
Current assets	**(34,737)**	(37,160)
Net debt	**176,360**	140,400
Net earnings	**38,151**	44,943
Adjustments to net earnings:		
Unrealized gain on risk management contracts	**2,609**	(1,559)
Deferred consideration	**(984)**	(1,009)
Finance costs	**27,704**	28,437
Share-option compensation	**2,783**	3,228
Depletion and depreciation	**90,829**	90,479
Current income tax expense	**9,116**	11,134
Deferred income tax expense	**1,589**	3,300
EBITDA (trailing twelve months)	**171,797**	178,953
Net debt to EBITDA ratio	**1.0**	0.8

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

b) Risks and mitigation

Market risk is the risk that the fair value or future cash flow of the Company's financial instruments will fluctuate because of changes in market prices. Components of market risk to which 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 March 31, 2024, the Company has the following physical delivery sales contracts in place.

Product	Type of contract	Volume	Term			Contract price ($)			
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]	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	Apr 1, 2024	to	Oct 31, 2025	-		2.39	CAD/GJ

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

Subsequent to March 31, 2024, the Company entered into the following physical delivery sales contract.

Product	Type of contract	Volume	Term			Contract price ($)	
Oil	Fixed price - WTI	400 BBL/day	May 1, 2024	to	Dec 31, 2024	82.54	USD/BBL

Risk Management Contracts

($ 000s)	**March 31, 2024**	March 31, 2023
Risk management contracts		
Realized gain (loss)	**370**	(111)
Unrealized (loss) gain	**(2,662)**	1,506
	(2,292)	1,395

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

As of March 31, 2024, the Company has the following risk management contracts in place.

Product	Type of contract	Volume	Term			Contract price ($)			
Oil	Financial collar - WTI	500 BBL/day	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
Oil	Financial collar - WTI	500 BBL/day	Jul 1, 2024	to	Dec 31, 2024	65.00	to	92.80	USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Jul 1, 2024	to	Dec 31, 2024	65.00	to	84.50	USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Jul 1, 2024	to	Dec 31, 2024	65.00	to	85.30	USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Oct 1, 2024	to	Dec 31, 2024	65.00	to	84.00	USD/BBL
Oil	Fixed price - MSW differential	500 BBL/day	Jul 1, 2024	to	Dec 31, 2024			(2.70)	USD/BBL
Oil	Fixed price - MSW differential	500 BBL/day	Jul 1, 2024	to	Dec 31, 2024			(2.50)	USD/BBL
Gas	Financial collar - AECO Monthly	5,000 GJ/day	Apr 1, 2024	to	Jun 30, 2024	2.25	to	2.71	CAD/GJ
Gas	Fixed Price - AECO Monthly	5,000 GJ/day	Jul 1, 2024	to	Dec 31, 2024			2.10	CAD/GJ
Gas	Fixed Price - AECO Daily	5,000 GJ/day	Jul 1, 2024	to	Dec 31, 2024			2.04	CAD/GJ

Subsequent to March 31, 2024 the Company entered into the following risk management contracts.

Product	Type of contract	Volume	Term			Contract price ($)			
Oil	Fixed price - MSW stream index	500 BBL/day	Apr 01, 2024	to	Dec 31, 2024			80.00	USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Jan 1, 2025	to	Mar 31, 2025	70.00	to	86.35	USD/BBL

Interest Rate Risk

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

As of March 31, 2024, the Company's debt facilities consist of a $85,000,000 syndicated revolving credit facility, and a $25,000,000 non-syndicated revolving credit facility, $71,250,000 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 $709,000.

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	48,840	-	-	-	48,840
Bank debt	Yes - Liability	-	38,688	-	-	38,688
Subordinated debentures[1]	Yes - Liability	-	59,000	-	-	59,000
Subordinated term debt[1]	Yes - Liability	19,000	52,250	-	-	71,250
Future interest	No	13,432	11,194	-	-	24,626
Firm service commitments	No	1,147	2,048	1,165	310	4,670
Office lease commitments	No	480	832	-	-	1,312
Total		82,899	164,012	1,165	310	248,386

[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 2.7 years.

CORPORATE INFORMATION

Board of Directors

D. Michael G. Stewart - Chair

John J. Campbell

David M. Humphreys

Stacey E. McDonald

Patrick G. Oliver

Jacqueline R. Ricci

Rodger A. Tourigny

Officers

Patrick G. Oliver, President and CEO

Robb D. Thompson, CFO and Corporate Secretary

Brad A. Curtis, Senior VP, Business Development

Registrar and Transfer Agent

Odyssey Trust Company

Auditors

Deloitte LLP

Solicitors

Borden Ladner Gervais LLP

Bankers

CIBC

ATB Financial

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