Bonterra Energy Corp.

For the three months ended March 31, 2023

TSX: **BNE**
www.bonterraenergy.com

BONTERRA ENERGY REPORTS FIRST QUARTER 2023 FINANCIAL AND OPERATING RESULTS

HIGHLIGHTS

As at and for the three months ended ($000s except $ per share)		**March 31, 2023**	December 31, 2022	March 31, 2022
FINANCIAL				
Revenue - realized oil and gas sales		**77,263**	87,154	91,542
Funds flow[(1)(2)]		**29,342**	41,145	47,092
Per share - basic		**0.79**	1.13	1.34
Per share - diluted		**0.79**	1.10	1.28
Cash flow from operations		**24,018**	35,494	40,942
Per share - basic		**0.65**	0.97	1.16
Per share - diluted		**0.64**	0.95	1.11
Net earnings		**7,640**	17,264	10,519
Per share - basic		**0.21**	0.47	0.30
Per share - diluted		**0.20**	0.46	0.29
Capital expenditures		**60,223**	12,642	32,169
Total assets		**963,890**	919,682	965,969
Net debt[(3)]		**183,674**	149,831	260,670
Bank debt		**12,388**	17,601	138,384
Shareholders' equity		**488,762**	479,839	405,148
OPERATIONS				
Light oil	-bbl per day	**7,068**	6,764	7,356
	-average price ($ per bbl)	**95.71**	105.59	110.41
NGLs	-bbl per day	**1,155**	1,209	996
	-average price ($ per bbl)	**54.54**	59.38	63.02
Conventional natural gas	-MCF per day	**31,448**	30,101	29,609
	-average price ($ per MCF)	**3.78**	5.36	4.80
Total barrels of oil equivalent per day (BOE)[(4)]		**13,464**	12,989	13,287

(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) Not included in funds flow for the three months ended March 31, 2023 is the use of $3.8 million (December 31, 2022 - $2.9 million, March 31, 2022- $Nil) of investment tax credits ("ITC") to settle federal income tax payable. These ITCs would decrease cash taxes owing and increase funds flow to $33,143,000 (December 31, 2022 - $44,084,000, March 31, 2022 - $47,092,000).

(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 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 provide an update for our stakeholders on Bonterra Energy Corp's. ("Bonterra" or the "Company") operating and financial results for the first three months of 2023. The period ending March 31, 2023 was very active operationally and as a result, we believe the Company is well positioned to build on our growing momentum through the balance of this year and beyond.

During the first quarter, our team successfully and efficiently invested $60.2 million into our winter drilling and completions program, which represents a significant portion of our full year 2023 budget, and drove a four percent increase in production over the previous quarter. We drilled 22 gross (20.6 net) operated wells and completed, equipped and tied-in 15 gross (14.2 net) operated wells in the quarter, with an additional seven (6.4 net) of the wells drilled but uncompleted coming on production in April. We also directed $3.7 million to the expansion of a wholly owned gas plant in order to eliminate current processing capacity limitations and support our ongoing growth trajectory. I am very proud to share that these efforts enabled Bonterra to achieve a new field estimate volume record in April, as production averaged 15,400 BOE per day for the month.

Our financial results benefited from the strong production volumes but were muted by lower realized commodity prices relative to both the previous quarter and the same period in 2022. We generated $29.3 million of funds flow ($0.79 per diluted share) in the quarter, with field and cash netbacks[1] of $34.90 per BOE and $24.21 per BOE, respectively. However, both funds flow and netbacks were lower than the previous quarter and the same period in 2022 attributable to lower commodity prices through Q1 2023. With global economic recessionary fears outstripping solid oil and gas fundamentals, there has been downward pressure on oil prices, while a warmer winter in North America reduced natural gas demand into a period of growing supply due to increased drilling activity, leading to a sharp price decline for natural gas.

With Bonterra's more active capital program in Q1, we recorded a modest planned increase to net debt at the end of the quarter relative to year end 2022, but recorded a 30 percent reduction in bank debt. However, with meaningfully lower capital spending and field activity in Q2 2023 combined with higher forecast average production, we anticipate reducing net debt in the second and third quarters of 2023 and expect that operating costs per BOE will be returning to lower levels in the second quarter.

A summary of our first quarter 2023 financial and operating results are provided below:

- Production in Q1 2023 averaged 13,464 BOE per day, four percent higher than Q4 2022, driven by an active, front-loaded capital program along with the reactivation of wells that had been shut-in during the previous quarter.

- Record production levels were realized subsequent to quarter end, with field estimate production volumes averaging 15,400 BOE per day[2] during the month of April, stemming from the success of the Company's Q1 2023 drilling program.

- Funds flow[3] totaled $29.3 million ($0.79 per fully diluted share) in Q1 2023, compared to $41.1 million ($1.10 per fully diluted share) generated in Q4 2022, consistent with lower realized oil and gas sales of $77.3 million for the period due to reduced commodity prices, slightly offset by higher production.

    - Accounting for cash taxes, whereby investment tax credit receivable ("ITC") was used to settle federal income tax owing, has the effect of understating our funds flow for the quarter by $3.8 million. If those ITC's were included in funds flow, the Company's Q1 2023 cash netback would increase by $3.14 per BOE to $27.35 per BOE and funds flow would increase to $33.1 million ($0.89 per fully diluted share).

[1] Non-IFRS measure. See advisories later in this press release.
[2] April 2023 volumes were comprised of 8,200 bbl/d light and medium crude oil, 1,328 bbl/d NGLs and 35,284 mcf/d of conventional natural gas.
[3] Non-IFRS measure. See advisories later in this press release.

- Production costs of $17.54 per BOE in Q1 2023 were comparable to Q1 2022 but increased nine percent from the previous quarter. As noted above, per unit operating costs are expected to normalize in the second quarter due to lower activity and higher forecast production volumes.

- Capital expenditures totaled $60.2 million in Q1 2023, 87 percent higher than the same quarter in 2022, and continued to track annual guidance. Bonterra directed $48.4 million to drilling, completions, equip and tie-in activities for the wells noted above, $3.7 million to expanding a wholly owned gas plant to alleviate processing capacity limitations, and an additional $8.1 million was allocated to related infrastructure, recompletions and non-operated capital programs.

    - To provide some perspective on the size and logistics of our Q1 program, the Company ran two drilling rigs, two completions teams and with ongoing infrastructure work, mobilized a workforce of over 300 people during the quarter. This highly successful program in terms of management and execution was also the largest Q1 capital program deployed in the Company's history.

    - Building on this, seven (6.4 net) remaining wells drilled in Q1 2023 were placed on production in early Q2 2023, contributing to the record field estimate production volumes realized in April.

- Bank debt reduced by 30 percent over year-end 2022, totaling $12.4 million at March 31, as the Company continues to focus on enhancing financial flexibility and sustainability. Net debt[2] totaled $183.7 at March 31, 2023 as a result of increased capital investments and reduced cash flow from lower commodity prices during the period, leading to a net debt to twelve-month trailing cash flow ratio[2] of 1.1 times compared to 0.8 times at December 31, 2022.

    - On May 9th, 2023, Bonterra completed the renewal of our $110 million bank facility, which is structured as a normal course, reserve-based credit facility available on a revolving basis through April 30, 2024, with bi-annual borrowing base redeterminations and a maturity of April 30, 2025. We are pleased that the Company's banking syndicate remains supportive.

    - Bonterra's strong debt profile continues to support the reintroduction of a shareholder returns-based business model by the end of 2023.

Bonterra's commitment to responsible operations and strong governance continued through the first three months of 2023. We directed $4.2 million towards the abandonment of 46.2 net wells and 36 pipelines, and anticipate that by year end 2023, approximately 80 percent of all wells across Bonterra's portfolio that are not expected to provide future economic contribution will have been abandoned. We also released our second Sustainability Report, highlighting the Company's success across environmental, social and governance initiatives through 2022.

Currently, Bonterra is actively monitoring the wildfire situation near to our operations in the Pembina area within Brazeau County. We have approximately 2,400 boe/d awaiting reactivation once access becomes available. We wish to take this opportunity to thank all of our dedicated staff and the emergency responders for their tireless efforts dealing with the wildfire situation. The team at Bonterra is sending our thoughts and best wishes to all of those affected.

OUTLOOK

As one of Canada's longest standing and most resilient junior oil and gas companies, Bonterra has established a strong position from which to build. In addition to benefiting from a moderate annual production decline rate, an extensive inventory of economically viable undrilled locations, and a strategic hedging program to reinforce economics, we maintain our focus on enhancing financial flexibility and undertaking safe, responsible and efficient operations to achieve measured growth. We are pleased to reaffirm our previously announced guidance for 2023.

Given our increasingly robust financial and operating position, along with a proven track record of operational execution, Bonterra intends to carve a new path forward towards the implementation of a sustainable dividend paying business model by the end of 2023. In support of this strategy, we will continue to actively pursue accretive acquisitions that can bolster production, expand the drilling inventory, contribute to free cash flow generation, attract new institutional investors and further enhance the balance sheet. Based on our current projections at strip pricing, we forecast that Bonterra will have minimal bank debt and be in a position to fund our capital expenditures and dividends, while still generating free cash flow.

We are supporting these efforts and seeking to enhance stability during periods of continued market volatility by laying on hedges that can help protect future cash flows and diversify our commodity price exposure. Approximately 30 percent of Bonterra's expected crude oil and natural gas production through the end of December 2023 has some pricing protection with hedges.

Finally, on behalf of the entire Bonterra team, we want to again recognize and thank Mr. George Fink, former founder, CEO and Director, for his contributions, vision and leadership of Bonterra over the past 25 years. Although he will not stand for re-election at the Company's upcoming shareholder meeting on May 18, 2023 (the "AGM"), the Board has conferred on Mr. Fink the honorary title of Director Emeritus, which will take effect immediately following his formal retirement from the Board, and enable Bonterra to continue benefitting from his insight, advice and guidance. I invite all of our shareholders and interested guests to join us for the upcoming AGM in Calgary as our first in-person shareholder meeting since the pandemic began in 2020.

With another successful quarter behind us, I would like to thank all of our stakeholders and shareholders for your ongoing support; our committed Board of Directors for their invaluable guidance; and each of our valued employees for your hard work and dedication to forging a bright new future for Bonterra.

Patrick Oliver
President and Chief Executive Officer

Management's Discussion and Analysis

The following report dated May 11, 2023 is a review of the operations and current financial position for the three months ended March 31, 2023 for Bonterra Energy Corp. ("Bonterra" or "the Company") and should be read in conjunction with the unaudited condensed financial statements and the audited financial statements including the notes related thereto for the fiscal year ended December 31, 2022 presented under International Financial Reporting Standards (IFRS), as well as Bonterra Annual Information From ("AIF"), each of which is filed on SEDAR at www.sedar.com

Use of Non-IFRS Financial Measures

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

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

Frequently Recurring Terms

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

Numerical Amounts

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

QUARTERLY COMPARISONS

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

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

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

Business Environment and Sensitivities

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

	Q1-2023	Q4-2022	Q3-2022	Q2-2022	Q1-2022	Q4-2021	Q3-2021	Q2-2021
Crude oil								
WTI (U.S.$/bbl)	**76.13**	82.64	91.56	108.41	94.29	77.19	70.56	66.07
WTI to MSW Stream Index								
Differential (U.S.$/bbl)[(1)]	**(2.86)**	(1.61)	(2.05)	(0.50)	(2.96)	(3.10)	(4.08)	(3.11)
Foreign exchange								
U.S.$ to Cdn$	**1.3520**	1.3578	1.3059	1.2766	1.2662	1.2601	1.2602	1.2280
Bonterra average realized								
oil price (Cdn$/bbl)	**95.71**	105.59	111.44	126.97	110.41	85.04	78.42	71.49
Natural gas								
AECO (Cdn$/mcf)	**3.20**	5.09	4.14	7.20	4.72	4.63	3.58	3.08
Bonterra average realized								
gas price (Cdn$/mcf)	**3.78**	5.36	4.73	6.76	4.80	4.93	3.94	3.37

(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 $76.13 USD per barrel in Q1 2023, a decrease of 19 percent compared to Q1 2022. The pricing decline into 2023 has been driven by volatile changes in supply and demand due to a variety of economic and geopolitical factors.

In addition to the WTI benchmark price, the Company's realized crude oil price is impacted by the MSW Stream Index or Edmonton Par differential (the "Differential"). The Differential averaged ($2.86) USD per barrel in Q1 2023, an improvement of $0.10 compared to Q1 2022. Decent North American refining demand for sweet crude, and limited pipeline apportionment contributed to the improvement in the Differential in the first quarter of 2023. Longer term, the Trans Mountain Expansion is expected to increase Canada's export capabilities and is anticipated to have a positive effect on the movement and pricing of Canadian barrels.

AECO daily spot prices averaged $3.20 per mcf in the first quarter of 2023, a decrease of 32% percent over the first quarter of 2022. The decrease is mainly due to unseasonably mild weather across much of North America that caused a significant decrease in heating demand for natural gas. The decrease in demand and robust supply has in turn, left natural gas storage levels well above a year ago and the five-year average as we exited winter.

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

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

Impact on cash flow	Change ($)	$000s	$ per share[(2)]
Realized crude oil price ($/bbl)	1.00	2,151	0.06
Realized natural gas price ($/mcf)	0.10	991	0.03
U.S.$ to Canadian $ exchange rate	0.01	1,656	0.04

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

(2) Based on annualized basic weighted average shares outstanding of 37,178,636.

Business Overview, Strategy and Key Performance Drivers

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

On May 9, 2023, Bonterra completed the renewal of its bank facility totaling $110 million, of which $12.4 million has been drawn as of March 31, 2023 (the "Bank Facility"). The Bank Facility is restructured as a normal course, reserve-based credit facility available on a revolving basis through April 30, 2024, with bi-annual borrowing base redeterminations and a term maturity of April 30, 2025.

The Company averaged 13,464 BOE per day of production in Q1 2023, compared to 12,989 BOE per day in Q4 2022, an increase of 475 BOE per day, or four percent. Bonterra's production increase was primarily driven by a front-loaded Q1 2023 capital program combined with having shut-in 245 BOE per day of production in Q4 2022 due to freeze-offs and equipment repairs from extremely cold weather in December. The Company anticipates its annual production to be within its 2023 annual guidance range, averaging between 13,500 to 13,700 BOE per day.

Bonterra invested capital expenditures of $60.2 million in Q1 2023. Of the total capital invested, $48.4 million was directed to the drilling of 22 gross (20.6 net) operated wells and completing, equipping, tying-in and placing on production 15 gross (14.2 net) operated wells, with the remaining seven gross (6.4 net) operated wells to be placed on production in Q2 2023. The Company also directed $3.7 million of the capital program to the expansion of a wholly owned gas plant to alleviate processing capacity limitations, and an additional $8.1 million was directed to related infrastructure, recompletions and non-operated capital programs.

The Company has continued to focus on responsible environmental initiatives, including a targeted abandonment and reclamation program with support from the Alberta Site Rehabilitation Program ("SRP"). During Q1 2023, Bonterra successfully abandoned 46.2 net wells and 36 pipelines, and plans to abandon an additional 16.2 net wells and 137 pipelines in 2023. By the end of 2023, Bonterra expects to have abandoned approximately 80 percent of all wells identified as having no further economic potential.

As part of the Company's ongoing efforts to diversify commodity pricing and to protect future cash flows, Bonterra has executed physical delivery sales and risk management contracts to the end of Q4 2023 on approximately 30 percent of its expected crude oil and natural gas production. For the next nine months, Bonterra has secured a WTI price between $50.00 USD to $103.30 USD per bbl on 2,183 bbls per day, with a WTI to Edmonton par differential at prices ranging from approximately $3.50 USD to $4.95 USD per barrel on 998 bbls per day. In addition, the Company has secured natural gas prices between $2.50 to $5.00 per GJ on 11,611 GJ per day to the end of Q4 2023.

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

Drilling

	Three months ended					
		March 31, 2023		December 31, 2022		March 31, 2022
	Gross(1)	**Net(2)**	Gross(1)	Net(2)	Gross(1)	Net(2)
Crude oil horizontal-operated	**22**	**20.6**	2	2.0	12	11.8
Crude oil horizontal-non-operated	**6**	**1.1**	-	-	6	0.7
Total	**28**	**21.7**	2	2.0	18	12.5
Success rate		**100%**		100%		100%

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

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

During the first quarter of 2023, the Company drilled, completed, tied in, and placed on production 15 gross (14.2 net) operated wells. An additional seven gross (6.4 net) operated wells that were drilled in the first quarter of 2023 have been completed, equipped and tied-in during the second quarter of 2023.

Production

	Three months ended		
	March 31, 2023	December 31, 2022	March 31, 2022
Crude oil (barrels per day)	**7,068**	6,764	7,356
NGLs (barrels per day)	**1,155**	1,209	996
Natural gas (MCF per day)	**31,448**	30,101	29,609
Average BOE per day	**13,464**	12,989	13,287

The Company averaged 13,464 BOE per day of production in the first three months of 2023, which was comparable to the same period in 2022. New production from the wells drilled in Q1 2023 will benefit Q2 2023 averages, due to these wells being placed on production late in the first quarter.

Quarter-over-quarter production increased by 475 BOE per day, as Q4 2022 had shut-in production of 245 BOE per day due to freeze-offs and equipment repairs from extremely cold weather in December. In addition, Bonterra placed 15 gross (14.2 net) operated wells on production in late Q1 2023 compared to 3 gross (3.0 net) operated wells in Q4 2022.

Cash Netback

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

	Three months ended		
$ per BOE	**March 31, 2023**	December 31, 2022	March 31, 2022
Production volumes (BOE)	**1,211,735**	1,195,030	1,195,873
Gross production revenue	**63.76**	72.93	76.55
Realized loss on risk management contracts	**(0.09)**	(1.04)	(5.43)
Royalties	**(11.23)**	(12.79)	(8.91)
Production costs	**(17.54)**	(16.11)	(17.24)
Field netback	**34.90**	42.99	44.97
General and administrative	**(2.32)**	(1.78)	(2.43)
Interest and other	**(4.14)**	(3.19)	(3.16)
Current income tax(1)	**(4.23)**	(3.59)	-
Cash netback	**24.21**	34.43	39.38

(1) Current income tax excludes the use of $3.8 million of investment tax credit receivable ("ITC") (December 31, 2022 - $2.9 million, March 31, 2022 - $Nil) used to settle Federal income tax owing. The usage of ITCs to settle cash taxes owing would increase cash netback by $3.14 per BOE (December 31, 2022 - $2.46, March 31, 2022 - $Nil). This would increase cash netback to $27.35 per BOE (December 31, 2022 - $36.89, March 31, 2022 - $39.38).

Cash netbacks decreased in Q1 2023 compared to the same period in 2022 primarily due to lower per BOE realized commodity prices, combined with higher per unit production costs, royalties, interest, and current income tax costs. This was partially offset by decreased loss on realized risk management contracts and lower per BOE general and administrative expenses.

Oil and Gas Sales

	Three months ended		
	March 31, 2023	December 31, 2022	March 31, 2022
Revenue - oil and gas sales ($ 000s)			
Light oil	**60,883**	65,704	73,096
NGL	**5,668**	6,604	5,652
Conventional natural gas	**10,712**	14,846	12,794
	77,263	87,154	91,542
Average realized prices:			
Light oil ($ per barrel)	**95.71**	105.59	110.41
NGL ($ per barrel)	**54.54**	59.38	63.02
Conventional natural gas ($ per MCF)	**3.78**	5.36	4.80
Average ($ per BOE)	**63.76**	72.93	76.55
Average BOE per day	**13,464**	12,989	13,287

Revenue from oil and gas sales in the first three months of 2023 decreased by $14.3 million, or 16 percent, compared to the same period in 2022. This decrease was primarily driven by a 13 percent decrease in Bonterra's realized crude oil prices over the same period. Quarter-over-quarter, revenue from oil and gas sales also decreased due to lower realized commodity prices. This was partially offset by a four percent increase in production and the successful Company's well maintenance program.

Bonterra's product split on a revenue basis was weighted approximately 86 percent to crude oil and NGLs during 2023.

Royalties

	Three months ended		
($ 000s)	**March 31, 2023**	December 31, 2022	March 31, 2022
Crown royalties	**9,966**	11,239	6,690
Freehold, gross overriding and other royalties	**3,637**	4,042	3,970
Total royalties	**13,603**	15,281	10,660
Crown royalties - percentage of revenue	**12.9**	12.9	7.3
Freehold, gross overriding and other royalties - percentage of revenue	**4.7**	4.6	4.3
Royalties - percentage of revenue	**17.6**	17.5	11.6
Royalties $ per BOE	**11.23**	12.79	8.91

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 2023 increased by $2.32 per BOE compared to Q1 2022, primarily due to a 13 percent increase in the Alberta oil crown reference price used to determine Alberta oil crown royalty rates. In addition, wells drilled during or shortly after the COVID-19 pandemic reached payout and were subject to higher royalty rates due to industry low capital costs. It is expected that the Alberta oil crown royalty rate as a percentage of revenue should decrease in subsequent years.

Production Costs

($ 000s except $ per BOE)	**March 31, 2023**	Three months ended December 31, 2022	March 31, 2022
Production costs	**21,250**	19,251	20,615
$ per BOE	**17.54**	16.11	17.24

Production costs for the first three months of 2023 were comparable to the same period in 2022, as both periods focused on completing well reactivations prior to spring break-up where road and lease access is limited.

Production costs increased on a BOE basis quarter-over-quarter primarily due to more well maintenance for well reactivations and increased levies related to freehold mineral tax. The Company anticipates production costs on a BOE basis to decrease in the second quarter due to increased production from the Q1 2023 drilling program and reduced well reactivations and facility maintenance.

Other Income

($ 000s)	**March 31, 2023**	Three months ended December 31, 2022	March 31, 2022
Investment income	**99**	115	14
Administrative income	**73**	207	104
Government grant in-kind	**782**	1,272	675
Deferred consideration	**250**	293	295
Realized loss on risk management contracts	**(111)**	(1,245)	(6,494)
Unrealized gain (loss) on risk management contracts	**1,506**	(246)	(9,110)
	2,599	396	(14,516)

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

The market value and carrying value of the investments held by the Company on March 31, 2023 totaled $1,591,000 (March 31, 2022 - $1,436,000). There were no dispositions during the three month period ended March 31, 2023 or March 31, 2022. Dispositions that result in a gain or loss on sale are recorded as an equity transfer between accumulated other comprehensive income and retained earnings.

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

The Government of Alberta’s SRP provides grant funding through service providers to abandon or remediate oil and gas sites. The Company derecognized approximately $0.8 million of asset retirement obligations as an in-kind grant in 2022 (March 31, 2022 - $0.7 million). The benefit of the in-kind grant is recognized through other income.

To minimize commodity price risk on crude oil and natural gas sales, Bonterra has entered into financial derivatives. The financial derivatives outstanding are for the period from April 1, 2023 to December 31, 2023 and are for a total of 554,850 barrels of light crude oil (approximately 2,018 barrels of oil per day for the next nine months) at fixed WTI prices ranging from $50.00 USD to $103.30 USD per barrel, with a fixed differential from WTI to Edmonton Par prices for 137,000 barrels of oil (approximately 998 barrels of oil per day) at prices ranging from approximately $3.50 to $4.95 USD per barrel. In addition, the Company has entered into financial derivatives on natural gas prices between $2.50 and $5.00 on 5,000 GJ per day for the remainder of 2023. These contracts are not considered normal sales contracts and are recorded at fair value.

General and Administrative ("G&A") Expense

		Three months ended	
	March 31,	December 31,	March 31,
($ 000s except $ per BOE)	**2023**	2022	2022
Employee compensation	**1,883**	1,187	1,695
Office and administrative	**923**	942	1,212
Total G&A	**2,806**	2,129	2,907
$ per BOE	**2.32**	1.78	2.43

Office and administrative expense decreased in the first three months of 2023 compared to the same period in 2022 due to a decrease in technical and advisory consulting fees, insurance premiums and bank renewal fees.

Finance Costs

		Three months ended	
	March 31,	December 31,	March 31,
($ 000s except $ per BOE)	**2023**	2022	2022
Interest on bank debt and subordinated debt	**972**	1,612	2,564
Subordinated debentures	**1,328**	1,327	1,328
Subordinated term debt	**2,898**	1,193	-
Interest expense	**5,198**	4,132	3,892
$ per BOE	**4.29**	3.46	3.25
Accretion of decommissioning liabilities	**924**	970	784
Accretion on subordinated debentures	**611**	681	517
Accretion on subordinated term debt	**557**	192	-
Total finance costs	**7,290**	5,975	5,193

Interest on bank debt was lower in Q1 2023 compared to Q1 2022 due to a decrease of approximately 90 percent in the average bank debt outstanding.

Subordinated debt interest relates to the Business Development Bank of Canada ("BDC") $47 million second lien non-revolving four-year term loan (the "BDC Loan"). Interest on the BDC Loan was $nil (March 31, 2022 - $0.7 million). The BDC loan was repaid on November 25, 2022.

Subordinated term debt is senior, unsecured and on March 31, 2023 was $90 million (December 31, 2022 - $95 million) (the "Subordinated Term Debt"). The Subordinated Term Debt has a fixed interest rate of 11.70 percent on 25 percent of the principal balance and a floating interest rate of Canadian Prime plus 6.25 percent on the remaining amount. Based on the calculated fair value of the Subordinated Term Debt as at March 31, 2022, the effective interest rate was determined to be 16.0 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 5 of the March 31, 2023, condensed financial statements.

Subordinated Debentures are unsecured and were determined to be a compound instrument with a debt and equity component. The fair value of the $59 million debt component was reduced by the residual value of the issuance 3,304,000 warrants and issue costs. The debentures have a fixed interest rate of nine percent, payable semi-annually. Based on the calculated fair value of the subordinated debentures as at March 31, 2023, the effective interest rate was determined to be 15.6 percent using the effective interest rate method. The value of the subordinated debentures will accrete up to the principal balance at maturity. For more information on subordinated debentures, refer to Note 6 of the March 31, 2023, condensed financial statements.

A one percent increase (decrease) in the Canadian prime rate would decrease (increase) both annual net earnings and comprehensive income by approximately $616,000.

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

Share-Option Compensation

($ 000s)	**March 31, 2023**	Three months ended December 31, 2022	March 31, 2022
Share-option compensation	**1,109**	632	274

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, 2023, the Company has an unamortized expense of $3,522,000, of which $1,773,000 will be recognized for the remainder of 2023; $1,344,000 in 2024 and $405,000 thereafter. For more information about options issued and outstanding, refer to Note 8 of the March 31, 2023, condensed financial statements.

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

($ 000s)	**March 31, 2023**	Three months ended December 31, 2022	March 31, 2022
Depletion and depreciation	**21,817**	21,929	22,534

The provision for depletion and depreciation ("D&D") decreased in Q1 2023 compared to Q1 2022 primarily due to an increase in proved plus probable developed reserves. This was partially offset by an increase in production.

Taxes

The Company recorded an income tax expense of $4.3 million in Q1 2023 (Q1 2022 – $4.3 million). The income tax expense remained relatively unchanged despite a decrease in earnings before income taxes. This result was due to a prior period amendment replacing non-capital loss carryforwards with investment tax credit receivables. The Company recorded $5.1 million of current income tax expense, of which $1.2 million is payable to the province of Alberta. The Company used $3.9 million of investment tax credits to offset the cash owing for federal income tax.

For additional information regarding income taxes, see Note 7 of the March 31, 2023 condensed financial statements.

Net Earnings

($ 000s except $ per share)	**March 31, 2023**	Three months ended December 31, 2022	March 31, 2022
Net earnings	**7,640**	17,264	10,519
$ net earnings per share - basic	**0.21**	0.47	0.30
$ net earnings per share - diluted	**0.20**	0.46	0.29

Net earnings for Q1 2023 decreased by $2.9 million compared to Q1 2022. The decrease in net earnings was primarily attributed to a decrease in commodity prices and an increase in the Alberta oil crown rate. This was partially offset by a gain on risk management contracts in the current quarter compared to a loss on risk management contracts in the same period of 2022. Quarter-over-quarter net earnings decreased due to lower realized commodity prices and an increase in production and finance costs. This was partially offset by an increase in production and gain on risk management contracts in Q1 2023 compared to a loss on risk management contracts in Q4 2022.

Other Comprehensive Income

Other comprehensive income for Q1 2023 consists of an unrealized loss before tax on investments (including investment in a related party) of $437,000 relating to a decrease in the investments' fair value (March 31, 2022 – $545,000). Realized gains result in decreases to accumulated other comprehensive income as these gains are transferred to retained earnings. Other comprehensive income varies from net earnings by unrealized changes in the fair value of Bonterra's holdings of investments, including the investment in a related party, net of tax.

Cash Flow From Operations

	Three months ended		
	March 31,	December 31,	March 31,
($ 000s except $ per share)	**2023**	2022	2022
Cash flow from operations	**24,018**	35,494	40,942
$ per share - basic	**0.65**	0.97	1.16
$ per share - diluted	**0.64**	0.95	1.11

In Q1 2023, cash flow from operations decreased by $16.9 million compared to Q1 2022. This was primarily due to a decrease in realized commodity prices and an increase in Alberta oil crown royalty rates.

Quarter-over-quarter, cash flow from operations decreased due primarily to lower realized oil prices, which was partially offset by increased production volumes.

Liquidity and Capital Resources

Net Debt to Cash Flow from Operations

Bonterra continues to focus on reducing overall debt while managing its cash flow and capital expenditures. The Company's net debt to twelve month trailing cash flow ratio as of March 31, 2023 was 1.1 to 1 times (versus 0.8 to 1 times at December 31, 2022). The increase in Bonterra's net debt to cash flow ratio is primarily due to an increase in net debt due to the Company's front-loaded capital program in Q1 2023 and a decrease in cash flow from lower commodity prices. The net debt to cash flow ratio is expected to continue to improve in subsequent quarters due to the Company's focus on debt reduction paired with increased production, reduced capital spending in the second quarter and future cash flow protection from having approximately 30 percent of Bonterra's forecasted oil and natural gas production hedged over the next nine months.

Working Capital Deficiency and Net Debt

	March 31,	December 31,	March 31,
($ 000s)	**2023**	2022	2022
Working capital deficiency	**53,889**	12,578	25,814
Bank debt	**12,388**	17,601	138,384
Subordinated debt	**-**	-	47,268
Subordinated debentures	**51,708**	49,770	49,204
Subordinated term debt (long-term portion)	**65,689**	69,882	-
Net Debt	**183,674**	149,831	260,670

Net debt is a combination of bank debt, subordinated debentures, subordinated term debt and working capital. Subsequent to March 31, 2023, the Company's Bank Facility has a maturity date of April 30, 2025 and is recorded as a long-term liability at March 31, 2023 and December 31, 2022. Included in working capital deficiency is $19.0 million of principal payments and accrued interest 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, 2023 decreased by $77.0 million compared March 31, 2022, primarily due to increased cash flow resulting from comparatively higher commodity prices and production volumes. The Company intends to continue its focus on net debt reduction.

Working capital is calculated as current assets less current liabilities.

Financial Risk Management

Bonterra is exposed to market risk for the oil and gas produced by the Company. External factors beyond the Company's control may affect the marketability of oil and gas produced. Oil prices are affected by worldwide supply and demand fundamentals and access to market, while natural gas prices are largely affected by North American supply and demand fundamentals. To manage commodity risk, the Company executed physical delivery sales contracts which are considered normal sales contracts and are not recorded at fair value in the financial statements, and also executed risk management contracts which are not considered normal sales contracts and are recorded at fair value. The Company has contracts in place on approximately 30 percent of its estimated oil and gas production to the end of Q4 2023. The Company relies on its cash flow, access to equity markets and bank financing to support its operations and capital program. Bonterra uses these futures contracts to hedge its exposure to the potential adverse impact of commodity price volatility and provide a measure of stability to Bonterra's capital development program. For more information on physical delivery and risk management contracts in place, see Note 11 of the March 31, 2023 condensed financial statements.

Capital Expenditures

During the three months ended March 31, 2023, the Company incurred capital expenditures of $60.2 million (March 31, 2022 - $32.2 million). Of the total capital invested, $48.4 million was directed to the drilling of 22 gross (20.6 net) operated wells and the completion, equip and tie-in of 15 gross (14.2 net) operated wells. The remaining seven gross (6.4 net) operated wells were placed on production in the second quarter of 2023. The Company also spent $3.7 million on expanding a wholly owned gas plant and an additional $8.1 million was spent primarily on related infrastructure, recompletions and non-operated capital programs.

Decommissioning Liabilities

The Company spent $3.5 million on decommissioning activities in 2023 excluding Alberta SRP funding. Since the beginning of 2020, Bonterra successfully abandoned 533.7 net wells, 323 pipelines and five facilities.

Bank Debt and Subordinated Term Debt

Bank debt represents the outstanding amounts drawn on the Company's Bank Facility. As at March 31, 2023, the Company has a total Bank Facility of $110.0 million, comprised of a $85.0 million syndicated revolving credit facility and a $25.0 million non-syndicated revolving facility. The amount drawn under the total Bank Facility at March 31, 2023 was $12.4 million (December 31, 2022 - $17.6 million). The amounts borrowed under the total Bank Facility bear interest at a floating rate based on the applicable Canadian prime rate or Banker's Acceptance rate, plus between 2.00 percent and 7.00 percent, depending on the type of borrowing and the Company's consolidated debt to EBITDA ratio. EBITDA is defined as net income for the period excluding finance costs, provision for current and deferred taxes, depletion and depreciation, share-option compensation, gain or loss on sale of assets and impairment of assets. As at March 31, 2023, the terms of the total revolving Bank Facility provided that the loan facility was revolving to October 31, 2023, with a maturity date of October 31, 2024, with no set terms of repayment on the credit facility. Subsequent to March 31, 2023, the Company renewed its Bank Facility of $110.0 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, 2024, with a maturity date of April 30, 2025.

As at March 31, 2023, Bonterra classified its bank debt as a long-term liability and was in compliance with all financial covenants on its total Bank Facility.

The amount available for borrowing under the Bank Facility is reduced by outstanding letters of credit. Letters of credit totaling $2.1 million were issued as at March 31, 2023 (December 31, 2022 - $2.1 million). Security for the Bank Facility consists of various floating demand debentures totaling $750 million (December 31, 2021 - $750 million) over all of the Company's assets and a general security agreement with first ranking over all personal and real property.

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

The amount drawn under the Subordinated Term Debt at March 31, 2023 was $90.3 million (December 31, 2022 - $95.0 million). Based on the calculated fair value of the debt as at March 31, 2023, the effective interest rate was determined to be 16.0 percent, by discounting future payments of interest and principal with the residual value allocated to issue costs. The value of the debt will accrete up to the principal balance at maturity.

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

Financial Covenants

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

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

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

As at March 31, 2023, Bonterra was in compliance with all financial covenants on its first and second lien facilities.

For more information about bank debt and Subordinated Term Debt, please see Note 4 and 6, respectively, of the March 31, 2023 condensed financial statements.

Shareholders' Equity

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

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

Issued and fully paid - common shares	**Number**	**Amount ($ 000s)**
Balance, December 31, 2022	**36,912,892**	**781,679**
Issued pursuant to the Company's share option plan	**271,144**	**560**
Transfer from contributed surplus to share capital		**858**
Balance, March 31, 2023	**37,184,036**	**783,097**

A total of 2,753,000 Warrants are outstanding as at March 31, 2023, entitling the holder to purchase one Common Share of Bonterra for each Warrant at a price of $7.75, until October 20, 2025.

The Company provides a stock option plan for its directors, officers and employees. Under the plan, the Company may grant options for up to 3,718,403 (December 31, 2022 – 3,691,289) common shares. The exercise price of each option granted will not be lower than the market price of the common shares on the date of grant and the option's maximum term is five years.

For additional information regarding warrants and options outstanding, see Note 8 of the March 31, 2023, condensed financial statements.

Quarterly Financial Information

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

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

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

Contractual Obligations and Commitments

At March 31, 2023, Bonterra's total contractual obligations and commitments were $283,733,000. These include obligations and commitments in place as of December 31, 2022, changes in accrued interest in the period, as well as additional firm service commitments entered into during the three months ended March 31, 2023. For more information, refer to Note 12 "Commitments and Financial Liabilities" of the March 31, 2023 condensed financial statements.

Off-Balance Sheet Financing

Bonterra does not have any guarantees or off-balance sheet arrangements that have been excluded from the annual statement of financial position or balance sheet other than commitments disclosed in Note 12 of the March 31, 2023 condensed financial statements.

Critical Accounting Estimates

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

Assessment of Business Risk

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

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

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

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

Environmental Risk

General Risks

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

Climate Change Risks

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

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

Forward-Looking Information

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

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

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

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

Internal Controls Over Financial Reporting

The Company is required to comply with National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings." The certification of interim filings for the interim period ended March 31, 2023 requires that Bonterra disclose in the interim MD&A any changes in the Company's internal control over financial reporting that occurred during the period that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Bonterra confirms that no such changes were made to its internal controls over financial reporting during the three months ended March 31, 2023.

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

Management's Responsibility for Financial Statements

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

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

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

CONDENSED STATEMENT OF FINANCIAL POSITION

As at (unaudited) ($ 000s)	Note	**March 31, 2023**	December 31, 2022
Assets			
Current			
Accounts receivable		**29,994**	27,326
Crude oil inventory		**1,040**	1,106
Prepaid expenses		**5,749**	7,208
Investment tax credit receivable		**1,960**	5,761
Risk management contract	11	**2,304**	798
Investments		**1,591**	2,028
		42,638	44,227
Exploration and evaluation assets		**5,048**	4,563
Property, plant and equipment	3	**916,204**	870,892
		963,890	919,682
Liabilities			
Current			
Accounts payable and accrued liabilities		**76,553**	35,573
Subordinated term debt	6	**19,000**	20,193
Deferred consideration		**974**	1,039
		96,527	56,805
Bank debt	4	**12,388**	17,601
Subordinated debentures	5	**51,708**	49,770
Subordinated term debt	6	**65,689**	69,882
Deferred consideration		**8,866**	9,051
Decommissioning liabilities		**113,260**	109,215
Deferred tax liability	7	**126,690**	127,519
		475,128	439,843
Shareholders' equity			
Share capital	8	**783,097**	781,679
Contributed surplus		**31,956**	31,705
Warrants	8	**6,053**	6,053
Accumulated other comprehensive income		**398**	784
Deficit		**(332,742)**	(340,382)
		488,762	479,839
		963,890	919,682

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See accompanying notes to these condensed financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the three months ended March 31 (unaudited)

($ 000s, except $ per share)	Note	**2023**	2022
Revenue			
Oil and gas sales, net of royalties	9	**63,660**	80,882
Other income		**954**	793
Deferred consideration		**250**	295
Gain (loss) on risk management contracts	11	**1,395**	(15,604)
		66,259	66,366
Expenses			
Production		**21,250**	20,615
Office and administration		**923**	1,212
Employee compensation		**1,883**	1,695
Finance costs	10	**7,290**	5,193
Share-option compensation		**1,109**	274
Depletion and depreciation	3	**21,817**	22,534
		54,272	51,523
Earnings before income taxes		**11,987**	14,843
Taxes			
Current income tax expense	7	**5,126**	-
Deferred income tax expense (recovery)	7	**(779)**	4,324
		4,347	4,324
Net earnings for the period		**7,640**	10,519
Other comprehensive income			
Unrealized gain (loss) on investments		**(437)**	545
Deferred taxes on unrealized (gain) loss on investments		**51**	(63)
Other comprehensive income for the period		**(386)**	482
Total comprehensive income for the period		**7,254**	11,001
Net earnings per share - basic	8	**0.21**	0.30
Net earnings per share - diluted	8	**0.20**	0.29
Comprehensive income per share - basic	8	**0.20**	0.31
Comprehensive income per share - diluted	8	**0.19**	0.30

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF CASH FLOW

For the three months ended March 31 (unaudited)

($ 000s)	Note	**2023**	2022
Operating activities			
Net earnings		**7,640**	10,519
Items not affecting cash			
Deferred income tax expense (recovery)		**(779)**	4,324
Share-option compensation		**1,109**	274
Investment income		**(99)**	(14)
Finance costs	10	**7,290**	5,193
Unrealized (gain) loss on risk management contracts	11	**(1,506)**	9,110
Deferred consideration		**(250)**	(295)
Depletion and depreciation	3	**21,817**	22,534
Government grant in-kind	13	**(782)**	(675)
Decommissioning expenditures		**(3,465)**	(1,049)
Interest paid	10	**(3,870)**	(2,564)
Changes in non-cash working capital accounts	10	**(3,087)**	(6,415)
Cash provided by operating activities		**24,018**	40,942
Financing activities			
Decrease of bank debt		**(5,213)**	(24,561)
Decrease of subordinated term debt	6	**(5,943)**	-
Proceeds from warrants exercised	5	**-**	1,201
Stock option proceeds		**560**	653
Cash used in financing activities		**(10,596)**	(22,707)
Investing activities			
Investment income received		**99**	14
Exploration and evaluation expenditures		**(484)**	(7)
Property, plant and equipment expenditures	3	**(59,739)**	(32,162)
Changes in non-cash working capital accounts	10	**46,702**	13,920
Cash used in investing activities		**(13,422)**	(18,235)
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		**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, 2022	35,000,952	772,781	31,599	7,265	(221)	(419,405)	392,019
Share-option compensation			274				274
Exercise of options	491,665	653					653
Transfer to share capital on exercise of options		414	(414)				-
Exercise of warrants	155,000	1,201					1,201
Transfer to share capital on exercise of warrants		341		(341)			-
Comprehensive income					482	10,519	11,001
March 31, 2022	35,647,617	775,390	31,459	6,924	261	(408,886)	405,148
Share-option compensation			1,636				1,636
Exercise of options	869,275	959					959
Transfer to share capital on exercise of options		1,390	(1,390)				-
Exercise of warrants	396,000	3,069					3,069
Transfer to share capital on exercise of warrants		871		(871)			-
Comprehensive income					523	68,504	69,027
December 31, 2022	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

(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, 2023 and December 31, 2022 and for the three months ended March 31, 2023 and March 31, 2022 (unaudited).

1. NATURE OF BUSINESS AND SEGMENT INFORMATION

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

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

The financial statements were authorized for issue by the Company's Board of Directors on May 11, 2023.

2. BASIS OF PREPARATION AND FUTURE OPERATIONS

a) Statement of Compliance

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

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

b) Adopted Accounting Pronouncements

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

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

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

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

c) Future Accounting Pronouncements

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

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

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

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

3. PROPERTY, PLANT AND EQUIPMENT

Cost ($ 000s)	**Oil and gas properties**	**Production facilities**	**Furniture fixtures & other equipment**	**Total property plant & equipment**
Balance at December 31, 2022	1,542,394	415,183	2,461	1,960,038
Additions	44,998	14,723	18	59,739
Adjustment to decommissioning liabilities	7,370	-	-	7,370
Balance at March 31, 2023	**1,594,762**	**429,906**	**2,479**	**2,027,147**
Accumulated depletion and depreciation ($ 000s)	**Oil and gas properties**	**Production facilities**	**Furniture fixtures & other equipment**	**Total property plant & equipment**
Balance at December 31, 2022	(889,826)	(197,318)	(2,002)	(1,089,146)
Depletion and depreciation	(17,492)	(4,305)	(20)	(21,817)
Disposal and other	20	-	-	20
Balance at March 31, 2023	**(907,298)**	**(201,623)**	**(2,022)**	**(1,110,943)**
Carrying amounts as at: ($ 000s)				
December 31, 2022	652,568	217,865	459	870,892
March 31, 2023	**687,464**	**228,283**	**457**	**916,204**

Impairment

There were no indicators of impairment losses or reversals identified for each of the three months ended March 31, 2023 and 2022.

4. BANK DEBT

As at March 31, 2023, the Company had a total Bank Facility of $110,000,000 (December 31, 2022 - $110,000,000), comprised of a $85,000,000 syndicated revolving credit facility, and a $25,000,000 non-syndicated revolving credit facility. The amount drawn under the total Bank Facility at March 31, 2023 was $12,388,000 (December 31, 2022 - $17,601,000). The amounts borrowed under the total Bank Facility bear interest at a floating rate based on the applicable Canadian prime rate or Banker's Acceptance rate, plus between 2.00 percent and 7.00 percent, depending on the type of borrowing and the Company's consolidated debt to EBITDA ratio. EBITDA is defined as net income for the twelve month trailing period excluding finance costs, provision for current and deferred taxes, depletion and depreciation, share-option compensation, gain or loss on sale of assets and impairment of assets. As at March 31, 2023, the terms of the total revolving Bank Facility provided that the loan facility was revolving to October 31, 2023, with a maturity date of October 31, 2024, with no set terms of repayment on the credit facility. Subsequent to March 31, 2023, the Company renewed its Bank Facility of $110,0000,000, comprised 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 Facility provide that the loan facility will revolve to April 30, 2024, with a maturity date of April 30, 2025.

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, 2023 (December 31, 2022 - $2,095,000). Security for the Bank Facility consists of various floating demand debentures totaling $750,000,000 (December 31, 2022 - $750,000,000) over all of the Company's assets and a general security agreement with first ranking over all personal and real property.

Financial Covenants

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

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

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

As at March 31, 2023, Bonterra was in compliance with all financial covenants on its Bank Facility.

5. SUBORDINATED DEBENTURES

As at March 31, 2023 the Company has a total of 59,000 senior unsecured subordinated debenture units outstanding. Each Unit is comprised of: (i) one senior unsecured debenture with a par value of $1,000 per note and bearing interest at 9.0 percent per annum, payable semi-annually; and (ii) 56 common share purchase warrants of Bonterra ("Warrants"). The debentures mature on October 20, 2025 and all or a portion of the principal amount outstanding can be repaid without penalty after October 20, 2024, however, all interest due to the maturity date must be paid. A total of 3,304,000 Warrants were issued, entitling the holder to purchase one common share of Bonterra for each Warrant at a price of $7.75, until October 20, 2025. In the first three months of 2023, $1,328,000 (March 31, 2022 - $1,328,000) of interest was accrued.

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

6. SUBORDINATED TERM DEBT

As at March 31, 2023 the Company has a second lien, non-revolving subordinated term debt facility ("Subordinated Term Debt"). The amount drawn under the Subordinated Term Debt at March 31, 2023 was $90,250,000 (December 31, 2022 - $95,000,000). The amounts borrowed under the Subordinated Term Debt bear interest at a fixed rate of 11.70 percent to be applied to 25 percent of the term facility principle and a floating interest rate of Canadian Prime Rate plus 6.25 percent on the remaining 75 percent of the principal amount. The Company is required to make mandatory principal repayments equal to $4.75 million, payable on the last banking day of February, May, August and November of each calendar year, commencing on February 28, 2023. The term debt has a maturity date of November 30, 2026 on which the remaining outstanding principle balance is to be paid.

Based on the calculated fair value of the Subordinated Term Debt as at March 31, 2023, the effective interest rate was determined to be 16.0 percent using the effective interest rate method. The effective interest rate was calculated by discounting future payments of interest and principal with the residual value allocated to issue costs of $6,310,000. The value of the debt will accrete up to the principal balance at maturity. Interest paid in 2023 was $2,897,000 (March 31, 2022 - $Nil).

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

As at March 31, 2023, Bonterra was in compliance with all financial covenants on its second lien Subordinated Term Debt facility (as described in Note 4).

7. INCOME TAXES

($ 000s)	**March 31, 2023**	December 31, 2022
Deferred tax asset (liability) related to:		
Investments	**(70)**	(120)
Exploration and evaluation assets and property, plant and equipment	**(145,997)**	(145,019)
Investment tax credits	**(980)**	(2,040)
Decommissioning liabilities	**26,628**	25,700
Share issue costs	**1,461**	1,566
Financial derivative	**(530)**	(184)
Subordinated debenture	**(1,984)**	(2,125)
Subordinated term debt	**(1,280)**	(1,408)
Corporate capital tax losses carried forward	**7,449**	7,449
Unrecorded benefits of capital tax losses carried forward	**(7,378)**	(7,329)
Unrecorded benefits of successored resource related pools	**(4,009)**	(4,009)
Deferred tax asset (liability)	**(126,690)**	(127,519)

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

($ 000s)	**March 31, 2023**	March 31, 2022
Earnings before taxes	**11,987**	14,843
Combined federal and provincial income tax rates	**23.03%**	23.03%
Income tax provision calculated using statutory tax rates	**2,761**	3,418
Increase (decrease) in taxes resulting from:		
Share-option compensation	**255**	63
Amendment of prior period tax return	**1,319**	-
Renouncement of tax pool on flow through share issuance	**-**	1,257
Change in unrecorded benefits of tax pools	**49**	(93)
Change in estimates and other	**(37)**	(321)
	4,347	4,324

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	71,049
Share issue costs	20	6,348
Canadian oil and gas property expenditures	10	65,130
Canadian development expenditures	30	130,347
Canadian exploration expenditures	100	8,587
		281,461

The Company has $1,960,000 (December 31, 2022 - $8,861,000) of investment tax credits that expire in the following years: 2027- $1,090,000; 2028 - $745,000; 2034 - $99,000; and 2037 - $26,000.

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

8. SHAREHOLDERS' EQUITY

Authorized

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

Issued and fully paid - common shares	Number	Amount ($ 000s)
Balance, December 31, 2022	**36,912,892**	**781,679**
Issued pursuant to the Company's share option plan	**271,144**	**560**
Transfer from contributed surplus to share capital		**858**
Balance, March 31 2023	**37,184,036**	**783,097**

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, 2023, are as follows:

	2023	2022
Basic shares outstanding	**37,078,018**	35,177,401
Dilutive effect of share options and warrants (1)	**224,277**	1,592,600
Diluted shares outstanding	**37,302,295**	36,770,001

(1) The Company did not include 5,003,500 share-options and warrants (March 31, 2022 – 975,000) in the dilutive effect of share-options and warrants calculations as these were anti-dilutive.

Warrants

A summary of the status of warrants issued by the Company as of March 31, 2023 and changes during the period are presented below:

	Number of warrants	Weighted exercise price
At December 31, 2022 and March 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 3,718,404 (December 31, 2022 – 3,691,289 common shares). The exercise price of each option granted cannot be lower than the market price of the common shares on the date of grant and the option's maximum term is five years.

A summary of the status of the Company's stock options as of March 31, 2023 and changes during the period are presented below:

	Number of options	**Weighted average exercise price**
At December 31, 2022	2,751,750	$6.86
Options granted	179,000	6.54
Options exercised[1]	(360,750)	3.22
Options forfeited	(5,000)	8.13
At March 31, 2023	2,565,000	$7.34

(1) 191,000 options were exercised under the cashless option method, which resulted in 101,394 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, 2023:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable	Weighted-average exercise price
$ 1.00 - $ 5.00	314,500	1.1 years	$ 3.06	137,500	$ 2.72
5.01 - 10.00	2,205,500	4.3 years	7.85	334,650	8.85
10.01 - 15.00	45,000	2.2 years	12.32	-	-
$ 1.00 - $ 15.00	2,565,000	3.9 years	$ 7.34	472,150	$ 7.06

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

	March 31, 2023
Weighted-average risk free interest rate (%)[1]	**3.67**
Weighted-average expected life (years)	**2.0**
Weighted-average volatility (%)[2]	**66.68**
Forfeiture rate (%)	**6.81**
Weighted average dividend yield (%)	**1.87**

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

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

9. OIL AND GAS SALES, NET OF ROYALTIES

($ 000s)	**March 31, 2023**	March 31, 2022
Oil and gas sales		
Crude oil	**60,883**	73,096
Natural gas liquids	**5,668**	5,652
Natural gas	**10,712**	12,794
	77,263	91,542
Less royalties:		
Crown	**(9,966)**	(6,690)
Freehold, gross overriding royalties and other	**(3,637)**	(3,970)
	(13,603)	(10,660)
Oil and gas sales, net of royalties	**63,660**	80,882

10. SUPPLEMENTAL CASH FLOW INFORMATION

($ 000s)	**March 31, 2023**	March 31, 2022
Change in non-cash working capital:		
Accounts receivable	**(2,668)**	(12,559)
Crude oil inventory	**46**	(63)
Prepaid expenses	**1,459**	(281)
Investment tax credit receivable	**3,801**	-
Abandonment deposit	**(3)**	-
Accounts payable and accrued liabilities	**40,980**	20,408
	43,615	7,505
Changes related to:		
Operating activities	**(3,087)**	(6,415)
Investing activities	**46,702**	13,920
	43,615	7,505

Finance expense

($ 000s)	**March 31, 2023**	March 31, 2022
Interest expense:		
Bank and subordinated debt	**972**	2,564
Subordinated debenture	**1,328**	1,328
Subordinated term debt	**2,898**	-
	5,198	3,892
Accretion:		
Decommissioning liabilities	**924**	784
Subordinated debentures	**611**	517
Subordinated term debt	**557**	-
	2,092	1,301
Total finance costs	**7,290**	5,193
Interest expense	**5,198**	3,892
Interest accrued	**(1,328)**	(1,328)
Interest paid	**3,870**	2,564

11. FINANCIAL RISK MANAGEMENT

Financial Risk Factors

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

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

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

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

The Company is exposed to credit risk, liquidity risk and market risk as part of its normal course of business. The Company's overall risk management program seeks to mitigate these risks and reduce the volatility of the Company's financial performance. Financial risk is managed by senior management under the direction of the Board of Directors. The Company does not speculatively trade in risk management contracts. The Company's risk management contracts are entered into 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 the Company with financial flexibility and the ability to meet ongoing obligations as they become due.

After examining the economic factors that are causing the liquidity risk facing the Company, the judgment applied to these factors, and the various initiatives that the Company has and will undertake to strengthen its financial position, the Company believes it will have sufficient liquidity to support its ongoing operations and meet its financial obligations as they come due for at least the next twelve months. There can be no assurance that the next borrowing base redetermination will not result in a borrowing base shortfall, and that the necessary funds or additional security will be available to eliminate the 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 $29,994,000 accounts receivable balance at March 31, 2023 (December 31, 2022 - $27,327,000) over 87 percent (December 31, 2022 – 93 percent) relate to product sales or risk management contracts with national and international banks and oil and gas companies.

On a quarterly basis, Bonterra assesses if there has been any impairment of the financial assets of the Company. During the three months ended March 31, 2023, there was no material impairment provision required on any of the financial assets of the Company. Bonterra does have credit risk exposure, as the majority of the Company's accounts receivable are with counterparties having similar characteristics. However, payments from the Company's largest accounts receivable counterparties have consistently been received within 30 days and the sales agreements with these parties are cancellable with 30 days' notice if payments are not received.

As at March 31, 2023, approximately $252,000 or 0.9 percent of the Company's total accounts receivable are aged over 90 days and considered past due (December 31, 2022 - $262,000 or 1.1 percent). The majority of these accounts are due from various joint venture partners. The Company actively monitors past due accounts and takes the necessary actions to expedite collection, which can include withholding production or netting payables when the accounts are with joint venture partners. Should the Company determine that the ultimate collection of a receivable is in doubt, it will provide the necessary provision in its allowance for doubtful accounts with a corresponding charge to earnings. If the Company subsequently determines an account is uncollectable, the account is written off with a corresponding charge to the allowance account. The Company's allowance for doubtful accounts balance at March 31, 2023 is $1,182,000 (December 31, 2022 - $1,248,000) with the expense being included in general and administrative expenses. There were no material accounts written off during the period.

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

Capital Risk Management

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

The Company monitors capital based on the ratio of net debt (total debt adjusted for working capital) to cash flow from operating activities. This ratio is calculated using each quarter end net debt divided by the preceding twelve months' cash flow. At March 31, 2023, the Company had a net debt to cash flow level of 1.1:1 compared to 0.8:1 as at December 31, 2022. The increase in Bonterra's net debt to cash flow ratio is primarily due to an increase in net debt due to the Company's front-loaded capital program and a decrease in cash flow from lower commodity prices. The net debt to cash flow ratio is expected to continue to improve in subsequent quarters due to the Company's focus on debt reduction paired with increased production, reduced capital spending in the second quarter and future cash flow protection from having approximately 30 percent of Bonterra's forecasted oil and natural gas production hedged over the next nine months.

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

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

a) Net debt to cash flow ratio

The net debt and cash flow amounts are as follows:

($ 000s)	**March 31, 2023**	December 31, 2022
Bank debt	**12,388**	17,601
Subordinated debentures	**51,708**	49,770
Subordinated term debt[1]	**65,689**	69,882
Current liabilities	**96,527**	56,805
Current assets	**(42,638)**	(44,227)
Net debt	**183,674**	149,831
Cash flow from operations (trailing twelve months)	**166,629**	183,553
Net debt to cash flow ratio	**1.1**	0.8

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

b) Risks and mitigation

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

Commodity Price Risk

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

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

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

Physical Delivery Sales Contracts

Bonterra enters into physical delivery sales contracts to manage commodity price risk. These contracts are considered normal executory sales contracts and are not recorded at fair value in the financial statements. As of March 31, 2023, the Company has the following physical delivery sales contracts in place.

Product	Type of contract	Volume	Term			Contract price ($)			
Oil	Physical collar - WTI[1]	500 BBL/day	Apr 1, 2023	to	Jun 30, 2023	80.00	to	102.25	USD/BBL
Gas	Fixed Price - AECO Daily[4]	5,000 GJ/day	Apr 1, 2023	to	Jun 30, 2023			4.28	CAD/GJ
Gas	Fixed Price - AECO Daily[4]	4,000 GJ/day	Jul 1, 2023	to	Sep 30, 2023			3.85	CAD/GJ
Gas	Fixed Price - AECO Daily[4]	2,500 GJ/day	Apr 1, 2023	to	Oct 31, 2023			2.55	CAD/GJ
Gas	Physical collar - AECO Monthly[5]	5,000 GJ/day	Oct 1, 2023	to	Dec 31, 2023	2.75	to	3.75	CAD/GJ

(1) "WTI" refers to West Texas Intermediate, a grade of light sweet crude oil used as benchmark pricing in the United States.

(2) "MSW Stream index" or "Edmonton Par" refers to the mixed sweet blend that is the benchmark price for conventionally produced light sweet crude oil in Western Canada.

(3) "MSW differential" is the primary difference between WTI and MSW steam index benchmark pricing.

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

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

Risk Management Contracts

($ 000s)	**March 31, 2023**	March 31, 2022
Risk management contracts		
Realized loss	**(111)**	(6,494)
Unrealized gain (loss)	**1,506**	(9,110)
	1,395	(15,604)

The Company also enters into financial derivative instruments or risk management contracts to manage commodity price risk. These contracts are not considered normal executory sales contracts and are recorded at fair value in the financial statements. The Company has entered into the following risk management contracts during the period ended March 31, 2023.

Product	Type of contract	Volume	Term			Contract price ($)			
Oil	Financial collar - WTI	500 BBL/day	Apr 1, 2023	to	Jun 30, 2023	70.00	to	100.00	USD/BBL
Oil	Financial collar - WTI	1,000 BBL/day	Apr 1, 2023	to	Jun 30, 2023	75.00	to	101.00	USD/BBL
Oil	Financial collar - WTI	250 BBL/day	Apr 1, 2023	to	Jun 30, 2023	75.00	to	103.30	USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Jul 1, 2023	to	Sep 30, 2023	70.00	to	95.00	USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Jul 1, 2023	to	Sep 30, 2023	70.00	to	98.65	USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Jul 1, 2023	to	Sep 30, 2023	50.00	to	95.25	USD/BBL
Oil	Financial collar - WTI	600 BBL/day	Jul 1, 2023	to	Sep 30, 2023	50.00	to	98.00	USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Oct 1, 2023	to	Dec 31, 2023	60.00	to	86.75	USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Oct 1, 2023	to	Dec 31, 2023	60.00	to	90.00	USD/BBL
Oil	Financial collar - WTI	600 BBL/day	Oct 1, 2023	to	Dec 31, 2023	50.00	to	89.60	USD/BBL
Oil	Financial collar - WTI	600 BBL/day	Oct 1, 2023	to	Dec 31, 2023	50.00	to	93.00	USD/BBL
Oil	Fixed price - MSW differential	500 BBL/day	Oct 1, 2022	to	Jun 30, 2023			(4.95)	USD/BBL
Oil	Fixed price - MSW differential	500 BBL/day	Apr 1, 2023	to	Jun 30, 2023			(3.50)	USD/BBL
Oil	Fixed price - MSW differential	500 BBL/day	Jul 1, 2023	to	Sep 30, 2023			(3.80)	USD/BBL
Gas	Fixed Price - AECO Monthly	5,000 GJ/day	Apr 1, 2023	to	Jun 30, 2023			4.30	CAD/GJ
Gas	Financial collar - AECO Monthly	5,000 GJ/day	Jul 1, 2023	to	Sep 30, 2023	4.00	to	5.00	CAD/GJ
Gas	Financial collar - AECO Monthly	5,000 GJ/day	Oct 1, 2023	to	Dec 31, 2023	2.50	to	3.42	CAD/GJ

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, 2023, the Company’s debt facilities consist of a $85,000,000 syndicated revolving credit facility, and a $25,000,000 non-syndicated revolving credit facility, $90,250,000 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 $616,000.

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	76,553	-	-	-	76,553
Bank debt	Yes - Liability	-	12,388	-	-	12,388
Subordinated debentures [(1)]	Yes - Liability	-	59,000	-	-	59,000
Subordinated term debt[(1)]	Yes - Liability	19,000	38,000	33,250	-	90,250
Future interest	No	15,636	23,129	2,358	-	41,123
Firm service commitments	No	739	1,185	687	37	2,648
Office lease commitments	No	454	969	348	-	1,771
Total		112,382	134,671	36,643	37	283,733

[(1)] Principal amount.

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

The Company also has non-cancellable office lease commitments for building and office equipment. The building and office equipment leases have an average remaining life of 3.6 years.

13. GOVERNMENT GRANTS

The Government of Alberta's Site Rehabilitation Program ("SRP") provides grant funding through service providers to abandon or remediate oil and gas sites. The Company derecognized approximately $782,000 of asset retirement obligations as an in-kind grant (March 31, 2022 - $675,000). The benefit of the in-kind grant is recognized through other income.

Corporate Information

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

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

Registrar and Transfer Agent
Odyssey Trust Company

Auditors
Deloitte LLP

Solicitors
Borden Ladner Gervais LLP

Bankers
CIBC
ATB Financial
Business Development Bank of Canada

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

Website
www.bonterraenergy.com