Bonterra.

2023
Annual Report

Bonterra Energy Corp.
December 31, 2023

ABOUT BONTERRA

Bonterra Energy Corp. is a conventional oil and gas corporation forging a grounded path forward for Canadian energy. Operations include a large, concentrated land position in Alberta's Pembina Cardium, one of Canada's largest oil plays. Bonterra's liquids-weighted Cardium production provides a foundation for implementing a return of capital strategy over time, which is focused on generating long-term, sustainable growth and value creation for shareholders.

An emerging Charlie Lake light oil asset and a Montney exploration opportunity are both expected to provide enhanced optionality and an expanded potential development runway for the future.

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Patrick G. Oliver, President & CEO
Robb D. Thompson, CFO & Corporate Secretary
Brad A. Curtis, Senior VP, Business Development
Steve Ewens, VP Engineering

REPORT TO SHAREHOLDERS

As we look back on the Company's performance and achievements of the past year, I am very proud to share highlights of the operating and financial results generated by Bonterra Energy Corp. ("Bonterra" or the "Company"), through both the full year and the fourth quarter of 2023. This represents another period of continued progress and operational success for Bonterra, as our team truly delivered in the execution of our refreshed corporate strategy that saw the Company meet or exceed guidance across all key metrics. Above all, we achieved corporate milestones while navigating market volatility and uncertainty in commodity prices and remained committed to shareholder value creation.

In addition to production increases, including record volumes in the fourth quarter that averaged 15,128 BOE per day, Bonterra continued to transform the organization during 2023. We underwent a rebrand that aligned with our refreshed corporate strategy; added a new independent director; bolstered our internal technical team and expanded our asset base to include two new prolific light oil plays in the Montney and Charlie Lake, advancing the Company's long term sustainability. The recently announced Charlie Lake acquisition was acquired for $24.1 million adding economic multi-year drilling inventory,330 BOE per day of oil weighted production while improving the Company's free funds flow profile.

2023 Financial and Operating Snapshot

- Production in 2023 averaged **14,204 BOE per day** exceeding the top end of our guidance of 13,500 to 13,700 BOE per day;

- We invested **$126.5 million** of capital during the year, including drilling and completing our first Montney well for $9.0 million, which was not budgeted;

- Funds flow[1] totaled **$147.3 million ($3.95 per fully diluted share**) in 2023, while **free funds flow was $12.5 million** in 2023, which we primarily allocated to debt reduction;

- Net earnings were **$44.9 million ($1.20 per diluted share**) in the year;

- Net debt[1] decrease six percent over 2022, totaling **$140.4 million** at year-end 2023, with bank debt decreasing **16 percent** over the same period;

- Production costs of **$16.02 per BOE** were at the low end of our $16.00 to 16.50 per BOE guidance in 2023, demonstrating our team's ability to control costs and operate efficiently; and

- We exceeded guidance for investing in abandonment and reclamation, which totaled **$9.1 million** (gross), compared to expectations of $5.0 to $6.0 million.

Efficient Capital Allocation

Our team executed another safe, efficient and successful capital program in 2023 that centred on the development of our high-quality, light oil weighted Cardium assets. This culminated in the successful drilling of 41 gross (39.2 net) operated wells along with the completion, equip, tie-in and placing on production of 37 gross (35.6 net) operated wells. The remaining four gross (3.6 net) operated wells were brought onstream in the first quarter of 2024. We also invested in strategic infrastructure, recompletions and non-operated capital development, including the successful expansion of a wholly owned gas plant to alleviate processing capacity limitations along with the upgrading of equipment to drive down per unit production costs, as well as the drilling of our first exploration Montney well.

Commodity price fluctuations that occurred through 2023 served as an important reminder that maintaining an optimal commodity weighting can be highly strategic. As demonstrated, we saw WTI prices remain relatively stable in the mid $70/bbl through the year, while AECO natural gas prices retreated from $5.09/mcf in the final quarter of 2022, to $2.29/mcf in the fourth quarter of 2023. Bonterra's revenue in 2023 was derived 88% from oil and liquids, which is positive given the current weak spot and future price outlook for natural gas.

Expanding Our Runway

Testing of First Montney Well

As part of our strategy to position Bonterra for long-term sustainability, expand the Company's potential drilling inventory and enhance optionality for shareholders, during 2023, we took the first steps to creating a new core area in the Montney, which is regarded as one of the most economic and expansive plays in North America. We drilled our first exploratory Montney well on Bonterra's 45 section land position without increasing capital, and the results from this well could support drilling of a second well from the same pad in 2024 to further derisk and delineate the area while also holding the acreage.

We have since negotiated a processing agreement and secured natural gas egress through third party infrastructure with expectations of flowing the Montney well in the second quarter of 2024. The results of our first Montney well support continued testing and delineation in the area, though we intend to take a measured approach to align the pace of development with available egress.

Charlie Lake Acquisition

Bonterra's new core area in the Charlie Lake, which is also deemed one of the top five trending oil plays in the Western Canadian Sedimentary Basin, is highly complementary to our existing Cardium assets and we can directly leverage our team's operational experience. We built on a previously assembled 37 net sections in the area with the addition of 79 new net sections of land in Bonanza, Alberta, resulting in a total of 116 net sections of contiguous land in the light oil prone Charlie Lake, providing Bonterra with a longer development runway that is prospective for light oil.

Based on modeling, our full-field development plan for the Charlie Lake anticipates production reaching 6,000 BOE per day by 2026 that can be maintained over the long-term, while also maintaining our leverage metrics that support efforts to implement a return of capital framework.

Where We Go From Here

The volatility in commodity prices experienced during 2023 served as a reminder that maintaining an optimal commodity mix is highly strategic, and our oil and liquids weighted asset base has positioned the Company well to navigate future uncertainty. We are excited by the development opportunities identified under the emerging Charlie Lake and Montney assets, which offer considerable value creation potential while expanding Bonterra's longer-term drilling inventory.

Given the recent additions to our asset portfolio, the Company can now pivot from ongoing acquisition evaluation to place a greater focus on the execution of an efficient capital program and profitable development of our three core areas. We are pleased to supplement this operational focus by the recent addition of a senior geologist with extensive Charlie Lake experience, and the appointment of Mr. Steve Ewens, VP Engineering, to head our talented engineering group.

Bonterra will remain committed to prioritizing responsible free funds flow generation in 2024 which can be directed to further balance sheet strengthening, achieving modest production growth, or the implementation of a return of capital model.

Reflecting on another successful year in 2023, I want to extend my appreciation to the Bonterra team, and to all of our stakeholders for your trust in the Company. Under the invaluable oversight and guidance of our Board of Directors, we look forward to building on our current momentum to propel us on our journey towards responsible, long-term value creation.

Patrick Oliver
President & Chief Executive Officer

ANNUAL HIGHLIGHTS

FINANCIAL AND OPERATIONAL HIGHLIGHTS

As at and for the year ended ($000s except $ per share)		**December 31, 2023**	December 31, 2022	December 31, 2021
FINANCIAL				
Revenue - realized oil and gas sales		**319,517**	384,197	251,616
Funds flow[1]		**147,305**	185,583	104,843
Per share - basic		**3.96**	5.16	3.11
Per share - diluted		**3.95**	4.98	3.02
Cash flow from operations		**140,183**	183,553	96,103
Per share - basic		**3.77**	5.10	2.85
Per share - diluted		**3.76**	4.92	2.76
Net earnings[2]		**44,943**	79,023	179,299
Per share - basic		**1.21**	2.20	5.32
Per share - diluted		**1.20**	2.12	5.16
Capital expenditures		**126,478**	79,769	67,282
Total assets		**967,870**	919,682	945,721
Net debt[3]		**140,400**	149,831	267,179
Bank debt		**14,822**	17,601	162,945
Shareholders' equity		**528,258**	479,839	392,019
OPERATIONS				
Light oil	-bbl per day	**7,209**	7,095	7,204
	-average price ($ per bbl)	**97.58**	113.93	74.53
NGLs	-bbl per day	**1,359**	1,141	1,013
	-average price ($ per bbl)	**48.80**	66.00	43.86
Conventional natural gas	-MCF per day	**33,814**	31,023	27,176
	-average price ($ per MCF)	**3.12**	5.44	3.97
Total barrels of oil equivalent per day (BOE)[4]		**14,204**	13,407	12,747

(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) The Company recorded a $203,197,000 impairment reversal on its Alberta CGU's oil and gas assets less $47,149,000 deferred income tax expense in Q2 2021, due to the recovery of crude oil forward benchmark prices from the impact of COVID-19 in 2020.

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

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

QUARTERLY HIGHLIGHTS

	2023			
As at and for the periods ended ($ 000s except $ per share)	**Q4**	Q3	Q2	Q1
Financial				
Revenue - oil and gas sales	**81,739**	84,909	75,606	77,263
Funds flow [(1)]	**40,442**	42,722	34,799	29,342
Per share - basic	**1.09**	1.15	0.94	0.79
Per share - diluted	**1.08**	1.14	0.93	0.79
Cash flow from operations	**44,596**	37,715	33,854	24,018
Per share - basic	**1.20**	1.01	0.91	0.65
Per share - diluted	**1.19**	1.01	0.91	0.64
Net earnings	**14,973**	13,486	8,844	7,640
Per share - basic	**0.40**	0.36	0.24	0.21
Per share - diluted	**0.40**	0.36	0.24	0.20
Capital expenditures	**14,009**	36,130	16,116	60,223
Total assets	**967,870**	955,484	962,021	963,890
Bank debt	**14,822**	26,613	35,506	12,388
Net debt[(2)]	**140,400**	167,449	168,344	183,674
Shareholders' equity	**528,258**	512,479	498,449	488,762
Operations				
Light oil (barrels per day)	**7,306**	7,177	7,282	7,068
Average price ($ per bbl)	**97.01**	104.32	93.21	95.71
NGLs (barrels per day)	**1,619**	1,410	1,248	1,155
Average price ($ per bbl)	**48.12**	49.19	43.97	54.54
Conventional natural gas (MCF per day)	**37,214**	34,241	32,286	31,448
Average price ($ per MCF)	**2.73**	3.06	3.01	3.78
Total BOE per day[(3)]	**15,128**	14,294	13,911	13,464

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STATISTICAL REVIEW

Summary of Gross Oil and Gas Reserves as of December 31, 2023

	Light & Medium Crude Oil	Conventional Natural Gas	Natural Gas Liquids	Oil equivalent[4]	Future development Capital
Reserves Category:	(Mbbl)	(MMCF)	(Mbbl)	(MBOE)	(000s)
PROVED					
Developed Producing	16,475	79,677	3,008	32,763	-
Developed Non-Producing	2,485	13,626	501	5,257	8,525
Undeveloped	23,245	91,458	3,633	42,121	707,017
TOTAL PROVED	42,205	184,761	7,142	80,141	715,542
PROBABLE	10,950	46,976	1,827	20,606	3,951.00
TOTAL PROVED PLUS PROBABLE[(1)(2)(3)]	53,155	231,737	8,969	100,747	719,493

(1) Reserves have been presented on gross basis which are the Company's total working interest share before the deduction of any royalties and without including any royalty interests of the Company.
(2) Totals may not add due to rounding.
(3) Based on Sproule's December 31, 2023 escalated price deck.
(4) Oil equivalent amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil.

Reconciliation of Company Gross Reserves by Principle Product Type as of December 31, 2023[(1)]

	Light & Medium Crude Oil		Conventional Natural Gas[4]		Natural Gas Liquids		Total	
	Total Proved (Mbbl)	Proved + Probable (Mbbl)	Total Proved (MMCF)	Proved + Probable (MMCF)	Total Proved (Mbbl)	Proved + Probable (Mbbl)	Total Proved (MBOE)	Proved + Probable (MBOE)
Opening Balance December 31, 2022	**43,174**	**53,574**	**184,352**	**230,520**	**6,802**	**8,496**	**80,702**	**100,490**
Extensions & Improved Recovery[(2)]	4,469	5,829	16,768	21,477	756	967	8,019	10,376
Technical Revisions	(3,053)	(3,908)	(4,113)	(7,975)	79	2	(3,658)	(5,234)
Dispositions	-	-	(203)	(256)	(11)	(13)	(44)	(56)
Economic Factors	246	290	299	313	12	13	307	356
Production	(2,631)	(2,631)	(12,342)	(12,342)	(496)	(496)	(5,185)	(5,185)
Closing Balance, December 31, 2023[(3)]	**42,205**	**53,154**	**184,761**	**231,737**	**7,142**	**8,969**	**80,141**	**100,747**

(1) Gross Reserves means the Company's working interest reserves before calculation of royalties, and before consideration of the Company's royalty interests.
(2) Increases to Extensions & Improved Recovery include infill drilling and are the result of step-out locations drilled by Bonterra and other operators on and near Company-owned lands.
(3) Includes volumes associated with Farm outs.
(4) Totals may not add due to rounding.

Summary of Net Present Values of Future Net Revenue as of December 31, 2023

	Net Present Value Before Income Taxes Discounted at (% per Year)			
Reserves Category:	**0%**	**5%**	**10%**	**15%**
PROVED				
Developed Producing	899,090	692,144	557,339	468,130
Developed Non-Producing	141,106	99,918	76,585	61,736
Undeveloped	1,018,596	629,647	411,865	280,415
TOTAL PROVED	2,058,792	1,421,710	1,045,789	810,282
PROBABLE	799,896	483,731	337,012	256,000
TOTAL PROVED PLUS PROBABLE(1)(2)(3)(4)	2,858,688	1,905,441	1,382,801	1,066,282

(1) Evaluated by Sproule as at December 31, 2023. Net present value of future net revenue does not represent fair value of the reserves.
(2) Net present values equals net present value before income taxes based on Sproule's forecast prices and costs as of December 31, 2023. There is no assurance that the forecast price and cost assumptions will be attained and variances could be material.
(3) Includes abandonment and reclamation costs as defined in NI 51-101.
(4) Totals may not add due to rounding.

Finding, Development & Acquisition (FD&A) and Finding & Development (F&D) Costs

	Proved Reserves Net Additions				Proved + Probable Reserves Net Additions			
	2023	2022	2021	3 Yr Avg(4)	2023	2022	2021	3 Yr Avg(4)
FD&A COSTS PER BOE (1)(2)(3)(5)								
Including FDC	$39.08	$24.85	$6.90	$21.27	$34.16	$23.34	$5.64	$19.36
Excluding FDC	$27.09	$10.47	$8.68	$13.71	$23.24	$10.02	$8.23	$12.68
F&D COSTS PER BOE (1)(2)(3)(5)								
Including FDC	$39.08	$24.85	$6.90	$21.27	$34.16	$23.34	$5.64	$19.36
Excluding FDC	$27.09	$10.47	$8.68	$13.71	$23.24	$10.02	$8.23	$12.68

(1) Barrels of Oil Equivalent may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 MCF: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.
(2) The aggregate of the exploration and development costs incurred in the most recent financial year and the change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserve additions for that year.
(3) The calculation of F&D and FD&A costs both includes or excludes, as labelled, the change in FDC required to bring proved undeveloped and developed reserves into production. The F&D or FD&A number is calculated by dividing the identified capital expenditures by applicable reserve additions including extensions, infills. Revisions, acquisitions and disposals, and economic factors, after or before changes in FDC costs (as labelled)."FD&A Cost", "F&D Cost", and "Recycle Ratio" do not have standardized meanings and therefore may not be comparable with the calculation of similar measures for other entities. See "Information Regarding Disclosure on Oil and Gas Reserves and Operational Information" in the Bonterra Energy Announces 2023 Reserves and Provides Operational Update news release.
(4) Three-year average is calculated using three-year total capital costs and reserve additions on both a TP and TPP reserves on a weighted average basis.
(5) "FD&A Cost", "F&D Cost", and "Recycle Ratio" do not have standardized meanings and therefore may not be comparable with the calculation of similar measures for other entities. See "Information Regarding Disclosure on Oil and Gas Reserves and Operational Information" in the Bonterra Energy Announces 2023 Reserves and Provides Operational Update news release.

Commodity Prices Used in the Above Calculations of Reserves are as Follows

Year	Edmonton Par Price 40° API ($Cdn per bbl)	Natural Gas AECO-C Spot ($Cdn per mmbtu)	NGL Butanes Edmonton ($Cdn per bbl)	NGL Pentanes Edmonton ($Cdn per bbl)	Operating Cost Inflation Rate (% per Year)	Exchange Rate ($US/$Cdn)
FORECAST[1][2]						
2024	92.91	2.20	47.69	96.79	0.0	0.75
2025	95.04	3.37	48.83	98.75	2.0	0.75
2026	96.07	4.05	49.36	100.71	2.0	0.76
2027	97.99	4.13	50.35	102.72	2.0	0.76
2028	99.95	4.21	51.35	104.78	2.0	0.76
2029	101.94	4.30	52.38	106.87	2.0	0.76
2030	103.98	4.38	53.43	109.01	2.0	0.76
2031	106.06	4.47	54.50	111.19	2.0	0.76
2032	108.18	4.56	55.58	113.41	2.0	0.76
2033	110.35	4.65	56.70	115.67	2.0	0.76

(1) Crude oil, natural gas and liquid prices escalate at 2.0 percent thereafter.
(2) The forecast of product prices is an average of independent reserve evaluators Sproule, GLJ Petroleum Consultants and McDaniels & Associates Consultants Ltd.

Production

	2023		
	Oil & NGLs (Bbl Per Day)	Conventional Natural Gas (MCF Per Day)	Total (BOE Per Day)
Alberta	8,491	33,615	14,093
Saskatchewan	73	32	78
British Columbia	5	167	33
Total	8,569	33,814	14,204

Land Holdings

	2023		2022	
	Gross Acres	**Net Acres**	Gross Acres	Net Acres
Alberta	**354,928**	**227,663**	345,924	218,640
Saskatchewan	**5,886**	**3,677**	5,886	3,677
British Columbia	**65,913**	**28,297**	65,913	28,297
Total	**426,727**	**259,636**	417,723	250,613

Petroleum and Natural Gas Expenditures

($ 000s)	**2023**	2022
Land	1,222	2,569
Exploration and development costs	125,255	77,200
Net petroleum and natural gas capital expenditures	**126,477**	**79,769**

Drilling History

	2023					
	Development		**Exploratory**		**Total**	
	Gross	**Net**	**Gross**	**Net**	**Gross**	**Net**
Crude oil	52	41.2	-	-	52	41.2
Natural gas	-	-	1	1.0	1	1.0
Total	52	41.2	1	1.0	53	42.2
Success rate	100%	100%	100%	100%	100%	100%

	2022					
	Development		Exploratory		Total	
	Gross	Net	Gross	Net	Gross	Net
Crude oil	34	25.8	-	-	34	25.8
Natural gas	-	-	-	-	-	-
Total	34	25.8	-	-	34	25.8
Success rate	100%	100%	-	-	100%	100%

YEAR END 2023

Management's Discussion and Analysis

&

Financial Statements

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following report dated March 7, 2024 is a review of the operations and current financial position for the year ended December 31, 2023 for Bonterra Energy Corp. ("Bonterra" or "the Company") and should be read in conjunction with the audited financial statements presented under International Financial Reporting Standards (IFRS), including the notes thereto.

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.

ANNUAL COMPARISONS

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FINANCIAL				
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Cash flow from operations		**140,183**	183,553	96,103
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Conventional natural gas (MCF per day)	**37,214**	34,241	32,286	31,448
Total BOE per day	**15,128**	14,294	13,911	13,464

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

Business Environment and Sensitivities

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

	Q4-2023	Q3-2023	Q2-2023	Q1-2023	Q4-2022	Q3-2022	Q2-2022	Q1-2022
Crude oil								
WTI (U.S.$/bbl)	**78.32**	82.26	73.78	76.13	82.64	91.56	108.41	94.29
WTI to MSW Stream Index								
Differential (U.S.$/bbl)[(1)]	**(5.16)**	(1.83)	(2.96)	(2.86)	(1.61)	(2.05)	(0.50)	(2.96)
Foreign exchange								
U.S.$ to Cdn$	**1.3619**	1.3410	1.3431	1.3520	1.3578	1.3059	1.2766	1.2662
Bonterra average realized								
oil price (Cdn$/bbl)	**97.01**	104.32	93.21	95.71	105.59	111.44	126.97	110.41
Natural gas								
AECO (Cdn$/mcf)	**2.29**	2.58	2.44	3.20	5.09	4.14	7.20	4.72
Bonterra average realized								
gas price (Cdn$/mcf)	**2.73**	3.06	3.01	3.78	5.36	4.73	6.76	4.80

(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 $78.32 USD per barrel in Q4 2023, a decrease of five percent compared to Q4 2022. The pricing decline for WTI throughout 2023 has been driven by supply and demand volatility due to a variety of macroeconomic and geopolitical factors. These factors include, but are not limited to, persistent crude oil supply growth outside of OPEC+, and a slower than expected ramp up in demand from China as their economy struggles to regain growth rates similar to those realized prior to COVID-19 related restrictions.

In addition to the WTI benchmark price, the Company's realized crude oil price is impacted by the MSW Stream Index or Edmonton Par differential (the "Differential"). The Differential averaged ($5.16) USD per barrel in Q4 2023, a decrease of $3.55 USD per barrel from Q4 2022. Replenished inventories at the Cushing storage hub in Oklahoma and apportionment on downstream Canadian pipelines have been the largest contributing factor in moving the differential wider compared to recent quarters. The anticipated commissioning of the Trans Mountain Pipeline Expansion in 2024 is expected to increase Canada's export capabilities and to have a positive effect on the movement and pricing of all Canadian barrels.

AECO daily spot prices averaged $2.73 per mcf in Q4 2023, a decrease of 49 percent over Q4 2022. The decrease is mainly due to looser supply and demand balances and elevated storage levels that have been exacerbated by an unseasonably mild winter across much of North America and continued strong supply.

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

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

Impact on cash flow	Change ($)	$000s	$ per share[2]
Realized crude oil price ($/bbl)	1.00	2,194	0.06
Realized natural gas price ($/mcf)	0.10	1,191	0.03
U.S.$ to Canadian $ exchange rate	0.01	1,623	0.04

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

(2) Based on annualized basic weighted average shares outstanding of 37,253,252.

Business Overview, Strategy and Key Performance Drivers

Bonterra is an upstream oil and gas company that is primarily focused on the development of its Cardium land within the Pembina and Willesden Green areas located in central Alberta. The Pembina Cardium reservoir is the largest conventional oil reservoir in western Canada that features large original oil in place with very low recoveries to date. Bonterra operates approximately 93 percent of its production and the majority of its related oil and gas processing facilities, which require minimal additional capital to support an increase in production. Bonterra is 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 March 1, 2024, Bonterra closed an acquisition to purchase producing petroleum and natural gas assets in northern Alberta, for cash consideration of approximately $24.1 million before estimated closing adjustments. The assets acquired currently produce 330 BOE per day and provide a portfolio of high-quality future drilling locations and reserves, establishing a new core operating area for the Company.

The Company averaged 14,204 BOE per day of production in 2023, compared to 13,407 BOE per day in 2022, an increase of 797 BOE per day, or six percent. Quarter-over-quarter, Bonterra's average production increased by 834 BOE per day, primarily driven by realizing a full quarter of production from 12 gross (11.8 net) operated wells that were drilled in Q3 2023. The Company is pleased to reiterate its previously announced 2024 annual guidance with average production between 13,800 to 14,200 BOE per day based on a fully funded 2024 capital expenditure budget between $90 million to $100 million.

Bonterra invested capital expenditures of $126.5 million in 2023. Of the capital invested, $91.6 million was directed to the drilling of 41 gross (39.2 net) operated wells and completing, equipping, tying-in and placing on production 37 gross (35.6 net) operated wells. The remaining four gross (3.6 net) operated wells were placed on production in the first quarter of 2024. In addition to the drilling program, the Company allocated $3.7 million of the 2023 capital program to the expansion of a wholly owned gas plant to alleviate processing capacity limitations, with an additional $31.2 million directed to related infrastructure, recompletions, non-operated capital as well as the drilling of the Company's first exploration Montney well. The Montney well was completed in the fourth quarter of 2023 and is currently in the early stages of flow back with an extended flow test planned in the second quarter of 2024 through third-party processing facilities.

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"). Throughout 2023, Bonterra successfully abandoned 84.1 net wells and 155 pipelines for a total length of 135.7 kilometers of pipe. By the end of 2024, Bonterra expects to have abandoned approximately 75 percent of all wells identified as having no further economic potential.

As part of the Company's ongoing efforts to diversify commodity pricing and to protect future cash flows, Bonterra has executed physical delivery sales and risk management contracts to the end of Q3 2024 on approximately 30 percent of its expected crude oil and natural gas production. For the next nine months, Bonterra has secured a WTI price between $50.00 USD to $93.75 USD per bbl on 2,133 bbls per day. In addition, the Company has secured natural gas prices between $1.81 to $3.56 per GJ on 13,662 GJ per day to the end of Q3 2024.

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

Drilling

	Three months ended						Year ended			
	December 31, 2023		September 30, 2023		December 31, 2022		**December 31, 2023**		December 31, 2022	
	Gross[(1)]	**Net[(2)]**	Gross[(1)]	Net[(2)]	Gross[(1)]	Net[(2)]	**Gross[(1)]**	**Net[(2)]**	Gross[(1)]	Net[(2)]
Crude oil horizontal-operated	**3**	**2.8**	12	11.8	2	2.0	**41**	**39.2**	25	24.7
Crude oil horizontal-non-operated	**5**	**1.0**	-	-	-	-	**11**	**2.0**	9	1.1
Total	**8**	**3.8**	12	11.8	2	2.0	**52**	**41.2**	34	25.8
Success rate		**100%**		100%		100%		**100%**		100%

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

During 2023, the Company drilled 41 gross (39.2 net) operated wells and completed, tied in, and placed on production 37 gross (35.6 net) operated wells. The remaining four wells are expected to be completed and placed on production early in the first quarter of 2024. In addition to the 41 gross operated development wells, Bonterra drilled an exploration Montney well which the Company completed in Q4 2023 and plans to flow test through third party processing facilities in the second quarter of 2024.

Production

	Three months ended			Year ended	
	December 31, 2023	September 30, 2023	December 31, 2022	**December 31, 2023**	December 31, 2022
Crude oil (barrels per day)	**7,306**	7,177	6,764	**7,209**	7,095
NGLs (barrels per day)	**1,619**	1,410	1,209	**1,359**	1,141
Natural gas (MCF per day)	**37,214**	34,241	30,101	**33,814**	31,023
Average BOE per day	**15,128**	14,294	12,989	**14,204**	13,407

The Company averaged 14,204 BOE per day of production in 2023, compared to 13,407 BOE per day in 2022, an increase of 797 BOE per day or six percent. The increase was primarily due to Bonterra's successful capital program, which was partially offset by 333 BOE per day of shut-in volumes in Q2 2023 as a result of the wildfires that occurred in central Alberta during the period. Quarter-over-quarter, Bonterra increased its production by 834 BOE per day, primarily due to a full quarter of production from 12 gross (11.8 net) operated wells that were drilled in Q3 2023.

Cash Netback

$ per BOE	Three months ended December 31, 2023	September 30, 2023	December 31, 2022	Year ended December 31, 2023	December 31, 2022
Production volumes (BOE)	**1,391,754**	1,315,079	1,195,030	**5,184,455**	4,893,560
Gross production revenue	**58.73**	64.57	72.93	**61.63**	78.51
Realized gain (loss) on risk management contracts	**0.02**	0.52	(1.04)	**0.35**	(3.45)
Royalties	**(9.53)**	(8.10)	(12.79)	**(8.95)**	(12.68)
Production costs	**(13.37)**	(16.61)	(16.11)	**(16.02)**	(17.45)
Field netback	**35.85**	40.38	42.99	**37.01**	44.93
General and administrative	**(3.72)**	(2.30)	(1.78)	**(2.79)**	(2.43)
Interest and other	**(3.09)**	(3.64)	(3.19)	**(3.65)**	(2.98)
Current income tax	**0.02**	(1.96)	(3.59)	**(2.15)**	(1.60)
Cash netback	**29.06**	32.48	34.43	**28.42**	37.92

Cash netbacks decreased in 2023 on a BOE basis compared to 2022 primarily due to lower per BOE realized commodity prices, and increased current income tax costs. This was partially offset by gains on realized risk management contracts, and lower production and royalty costs.

Oil and Gas Sales

	Three months ended December 31, 2023	September 30, 2023	December 31, 2022	Year ended December 31, 2023	December 31, 2022
Revenue - oil and gas sales ($ 000s)					
Light oil	**65,209**	68,883	65,704	**256,745**	295,046
NGL	**7,168**	6,383	6,604	**24,212**	27,497
Conventional natural gas	**9,362**	9,643	14,846	**38,560**	61,654
	81,739	84,909	87,154	**319,517**	384,197
Average realized prices:					
Light oil ($ per barrel)	**97.01**	104.32	105.59	**97.58**	113.93
NGL ($ per barrel)	**48.12**	49.19	59.38	**48.80**	66.00
Conventional natural gas ($ per MCF)	**2.73**	3.06	5.36	**3.12**	5.44
Average ($ per BOE)	**58.73**	64.57	72.93	**61.63**	78.51
Average BOE per day	**15,128**	14,294	12,989	**14,204**	13,407

Revenue from oil and gas sales in 2023 decreased by $64.7 million, or 17 percent, compared to 2022. This decrease was primarily driven by a 22 percent reduction in Bonterra's average realized commodity prices over the same period. Quarter-over-quarter, revenue from oil and gas sales decreased due to lower realized crude oil and natural gas prices, partially offset by an increase in production.

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

Royalties

($ 000s)	Three months ended December 31, 2023	September 30, 2023	December 31, 2022	Year ended December 31, 2023	December 31, 2022
Crown royalties	**9,448**	7,382	11,239	**32,953**	44,842
Freehold, gross overriding and other royalties	**3,812**	3,267	4,042	**13,451**	17,233
Total royalties	**13,260**	10,649	15,281	**46,404**	62,075
Crown royalties - percentage of revenue	**11.6**	8.7	12.9	**10.3**	11.7
Freehold, gross overriding and other royalties - percentage of revenue	**4.7**	3.8	4.6	**4.2**	4.5
Royalties - percentage of revenue	**16.3**	12.5	17.5	**14.5**	16.2
Royalties $ per BOE	**9.53**	8.10	12.79	**8.95**	12.68

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 2023 decreased by $3.73 per BOE compared to 2022 primarily due to a decrease in commodity prices. Quarter-over-quarter, royalties increased on a BOE basis due to a 16 percent increase in the Alberta Light Oil Crown Reference price used to calculate Alberta Oil Crown royalties.

Production Costs

($ 000s except $ per BOE)	Three months ended December 31, 2023	September 30, 2023	December 31, 2022	Year ended December 31, 2023	December 31, 2022
Production costs	**18,603**	21,844	19,251	**83,064**	85,385
$ per BOE	**13.37**	16.61	16.11	**16.02**	17.45

Production costs for 2023 decreased compared to 2022, primarily due to less well and facility maintenance as the Company replaced old infrastructure with new upgrades that require less maintenance. The Company also incurred less service rig costs due to fewer wells being worked over in Q4 2023. This was partially offset by general cost increases due to inflation and an increase in government levies.

Quarter-over-quarter, production costs decreased on a BOE basis due to less service rig costs and a decrease in power costs.

Other Income

($ 000s)	Three months ended December 31, 2023	September 30, 2023	December 31, 2022	Year ended December 31, 2023	December 31, 2022
Investment income	**120**	104	115	**440**	221
Administrative income	**120**	74	207	**321**	706
Gain on sale of property	**-**	17	-	**17**	-
Government grant in-kind	**-**	-	1,272	**782**	3,675
Deferred consideration	**274**	232	293	**1,009**	1,158
Realized gain (loss) on risk management contracts	**28**	680	(1,245)	**1,801**	(16,878)
Unrealized gain (loss) on risk management contracts	**4,617**	(3,266)	(246)	**1,559**	5,365
	5,159	(2,159)	396	**5,929**	(5,753)

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 December 31, 2023 totaled $1,634,000 (December 31, 2022 - $2,028,000). There were no dispositions during the period ended December 31, 2023 or December 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, which concluded in Q2 2023. The Company derecognized approximately $0.8 million of asset retirement obligations as an in-kind grant in 2023 (December 31, 2022 - $3.7 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 primarily for the period from January 1, 2024 to December 31, 2024 and are for a total of 704,200 barrels of light crude oil (approximately 1,924 barrels of oil per day for the next twelve months) at fixed WTI prices ranging from $50.00 USD to $93.75 USD per barrel. In addition, the Company has entered into financial derivatives on natural gas prices between $1.81 and $2.04 on 3,360 GJ per day for the period from January 1, 2024 to December 31, 2024. These contracts are not considered normal sales contracts and are recorded at fair value.

General and Administrative ("G&A") Expense

	Three months ended			Year ended	
($ 000s except $ per BOE)	**December 31, 2023**	September 30, 2023	December 31, 2022	**December 31, 2023**	December 31, 2022
Employee compensation	**3,937**	1,829	1,187	**9,212**	7,489
Office and administrative	**1,234**	1,201	942	**5,245**	4,418
Total G&A	**5,171**	3,030	2,129	**14,457**	11,907
$ per BOE	**3.72**	2.30	1.78	**2.79**	2.43

Employee compensation expense increased by $1.7 million for 2023 compared to 2022. The increase is primarily due to a bonus accrual and severance paid in fourth quarter of 2023.

Office and administrative expense increased in 2023 compared to the same period in 2022 primarily due to an increase in continuous disclosure costs and an increase in the provision for the allowance for doubtful accounts.

Finance Costs

	Three months ended			Year ended	
($ 000s except $ per BOE)	**December 31, 2023**	September 30, 2023	December 31, 2022	**December 31, 2023**	December 31, 2022
Interest on bank debt and subordinated debt	**641**	867	1,612	**3,359**	8,974
Subordinated debentures	**1,327**	1,328	1,327	**5,310**	5,310
Subordinated term debt	**2,596**	2,748	1,193	**11,046**	1,193
Interest expense	**4,564**	4,943	4,132	**19,715**	15,477
$ per BOE	**3.28**	3.76	3.46	**3.80**	3.16
Accretion of decommissioning liabilities	**943**	956	970	**3,770**	3,567
Accretion on subordinated debentures	**790**	706	681	**2,816**	2,411
Accretion on subordinated term debt	**496**	522	192	**2,136**	192
Total finance costs	**6,793**	7,127	5,975	**28,437**	21,647

Interest on bank debt was lower in 2023 compared to 2022 due to a decrease of approximately 79 percent in average bank debt outstanding.

Subordinated debt interest relates to the Business Development Bank of Canada ("BDC") $47 million second lien non-revolving four-year term loan (the "BDC Loan"). Interest on the BDC Loan for the year ended December 31, 2023 was $nil (December 31, 2022 - $2.6 million). The BDC Loan was fully repaid on November 25, 2022.

Subordinated unsecured term debt on December 31, 2023 was $76.0 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 December 31, 2023, the effective interest rate was determined to be 16.4 percent using the effective interest rate method. The value of the debt will accrete up to the principal balance at maturity. For more information on Subordinated Term Debt, refer to Note 10 of the December 31, 2023, audited annual 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 December 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 9 of the December 31, 2023, audited annual financial statements.

A one percent increase (decrease) in the Canadian prime rate would decrease (increase) both annual net earnings and comprehensive income by approximately $580,000.

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

Share-Option Compensation

	Three months ended			Year ended	
	December 31,	September 30,	December 31,	**December 31,**	December 31,
($ 000s)	**2023**	2023	2022	**2023**	2022
Share-option compensation	**946**	471	632	**3,228**	1,910

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 December 31, 2023, the Company has an unamortized expense of $3,207,000, of which $2,132,000 will be recognized in 2024; $877,000 in 2025 and $198,000 thereafter. For more information about options issued and outstanding, refer to Note 13 of the December 31, 2023, audited annual financial statements.

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

	Three months ended			Year ended	
	December 31,	September 30,	December 31,	**December 31,**	December 31,
($ 000s)	**2023**	2023	2022	**2023**	2022
Depletion and depreciation	**24,071**	21,984	21,929	**90,479**	90,951

The provision for depletion and depreciation ("D&D") remained relatively the same as the increase in production was offset by an increase in proved plus probable developed reserves.

Taxes

The Company recorded a total income tax expense of $14.4 million in 2023 (2022 – $25.5 million). The income tax expense decrease compared to the prior period is due to reduced earnings before income taxes. The 2023 current income tax portion of the provision of $11.1 million, is comprised of $3.8 million payable to the province of Alberta and the remainder to the Federal government. The Company used $5.3 million of investment tax credits to offset the cash owing for Federal income tax.

For additional information regarding income taxes, see Note 12 of the December 31, 2023 audited annual financial statements.

Net Earnings

	Three months ended			Year ended	
	December 31,	September 30,	December 31,	**December 31,**	December 31,
($ 000s except $ per share)	**2023**	2023	2022	**2023**	2022
Net earnings	**14,973**	13,486	17,264	**44,943**	79,023
$ net earnings per share - basic	**0.40**	0.36	0.47	**1.21**	2.20
$ net earnings per share - diluted	**0.40**	0.36	0.46	**1.20**	2.12

Net earnings for 2023 decreased by $34.1 million compared to 2022. The decrease in net earnings was primarily attributed to lower commodity prices realized and increased finance costs during the period. This was partially offset by a gain on risk management contracts in the current year compared to a loss on risk management contracts in the prior year and a decrease in the tax provision.

Other Comprehensive Income

Other comprehensive income for 2023 consists of an unrealized loss before tax on investments of $394,000 relating to a decrease in the investments' fair value (December 31, 2022 – $1,137,000 gain). Realized gains result in decreases to accumulated other comprehensive income as these gains are transferred to retained earnings. Other comprehensive income varies from net earnings by unrealized changes in the fair value of Bonterra's holdings of investments, net of tax.

Cash Flow From Operations

	Three months ended			Year ended	
	December 31,	September 30,	December 31,	**December 31,**	December 31,
($ 000s except $ per share)	**2023**	2023	2022	**2023**	2022
Cash flow from operations	**44,596**	37,715	35,494	**140,183**	183,553
$ per share - basic	**1.20**	1.01	0.97	**3.77**	5.10
$ per share - diluted	**1.19**	1.01	0.95	**3.76**	4.92

In 2023, cash flow from operations decreased by $43.4 million compared to 2022. This was primarily due to a decrease in realized commodity prices.

Quarter-over-quarter, cash flow from operations increased primarily due to an increase in non-cash working capital.

Liquidity and Capital Resources

Net Debt to EBITDA

Bonterra continues to focus on reducing overall debt while managing its cash flow and capital expenditures. The Company's net debt to twelve month trailing EBITDA ratio as of December 31, 2023 was 0.8 (versus 0.7 at December 31, 2022). EBITDA is defined as net income for the period excluding finance costs, provision for current and deferred taxes, depletion and depreciation, share-option compensation, gain or loss on sale of assets and impairment of assets. The increase in Bonterra's net debt to EBITDA flow ratio is primarily due to a decrease in EBITDA from lower commodity prices. The net debt to EBITDA ratio is expected to improve in subsequent quarters due to the Company's focus on debt reduction paired with increased production and future cash flow protection from having approximately 30 percent of Bonterra's forecasted oil and natural gas production hedged over the next nine months.

For more information about net debt to EBITDA, please see Note 17 of the December 31, 2023 audited annual financial statements.

Working Capital Deficiency and Net Debt

($ 000s)	**December 31, 2023**	December 31, 2022
Working capital deficiency	**19,975**	12,578
Bank debt	**14,822**	17,601
Subordinated debentures	**52,585**	49,770
Subordinated term debt (long-term portion)	**53,018**	69,882
Net debt	**140,400**	149,831

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

Net debt at December 31, 2023 decreased by $9.4 million compared to December 31, 2022, primarily due to Bonterra's continued focus on balance sheet strengthening, which was partially offset by the Company's front loaded 2023 capital program.

Working capital is calculated as current assets less current liabilities.

Financial Risk Management

Bonterra is exposed to market risk for the oil and gas produced by the Company. External factors beyond the Company's control may affect the marketability of oil and gas produced. Oil prices are affected by worldwide supply and demand fundamentals and access to market, while natural gas prices are largely affected by North American supply and demand fundamentals. To manage commodity risk, the Company executed physical delivery sales contracts which are considered normal sales contracts and are not recorded at fair value in the financial statements, and also executed risk management contracts which are not considered normal sales contracts and are recorded at fair value. The Company has contracts in place on approximately 30 percent of its estimated oil and gas production to the end of Q3 2024. The Company relies on its cash flow, access to equity markets and bank financing to support its operations and capital program. Bonterra uses these futures contracts to hedge its exposure to the potential adverse impact of commodity price volatility and provide a measure of stability to the Company's capital development program. For more information on physical delivery and risk management contracts in place, see Note 17 of the December 31, 2023 audited annual financial statements.

Capital Expenditures

During 2023, the Company incurred capital expenditures of $126.5 million (December 31, 2022 - $79.8 million). Of the total capital invested, $91.6 million was directed to the drilling of 41 gross (39.2 net) operated wells and the completion, equip and tie-in of gross 37 (35.6 net) operated wells. The remaining four gross (3.6 net) operated wells were placed on production in the first quarter of 2024. In addition to the development drilling program, Bonterra also directed $3.7 million to expanding a wholly owned gas plant, with an additional $31.2 million spent primarily on related infrastructure, recompletions, non-operated capital programs and the drilling as well as completion of the Company's first exploration Montney well. The Montney well was completed in the fourth quarter and is currently in the early stages of flow back with an extended flow test planned in the second quarter of 2024 through third party processing facilities.

Decommissioning Liabilities

Including the Alberta SRP funding that was received in the first quarter, the Company spent $9.1 million on decommissioning activities during the year ended December 31, 2023. Since the beginning of 2020, Bonterra has successfully abandoned 573.5 net wells, 423 pipelines and six facilities.

Bank Debt and Subordinated Term Debt

Bank debt represents the outstanding amounts drawn on the Company's Bank Facility. As at December 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 December 31, 2023 was $14.8 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. As at December 31, 2023, the terms of the total revolving Bank Facility provided that the loan facility was revolving to April 30, 2024, with a maturity date of April 30, 2025, with no set terms of repayment on the credit facility. The terms of the revolving Bank Facility were confirmed on October 25, 2023. The Company is subject to the next semi-annual determination by April 30, 2024.

As at December 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 December 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 principal balance is to be paid.

The amount drawn under the Subordinated Term Debt at December 31, 2023 was $76.0 million (December 31, 2022 - $95.0 million). Based on the calculated fair value of the debt as at December 31, 2023, the effective interest rate was determined to be 16.4 percent, by discounting future payments of interest and principal with the residual value allocated to issue costs. The value of the debt will accrete up to the principal balance at maturity.

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

Financial Covenants

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

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

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

As at December 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 8 and 10, respectively, of the December 31, 2023 audited annual 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.

	December 31, 2023		December 31, 2022	
Issued and fully paid - common shares	**Number**	**Amount ($ 000s)**	Number	Amount ($ 000s)
Balance, beginning of year	**36,912,892**	**781,679**	35,000,952	772,781
Issued pursuant to the Company's share option plan	**340,360**	**596**	1,360,940	1,612
Transfer from contributed surplus to share capital		**910**		1,804
Issued pursuant to the exercise of warrants	**-**	**-**	551,000	4,270
Transfer from warrants to share capital		**-**		1,212
Balance, end of year	**37,253,252**	**783,185**	36,912,892	781,679

A total of 2,753,000 Warrants are outstanding as at December 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 3,725,325 (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 13 of the December 31, 2023, audited annual financial statements.

Quarterly Financial Information

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

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

The fluctuations in the Company's revenue and net earnings from quarter-to-quarter are caused by variations in production volumes, realized commodity pricing and the related impact on royalties, production, G&A and finance costs.

Contractual Obligations and Commitments

At December 31, 2023, the Company has the following contractual obligations and commitments:

($ 000s)	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	37,226	-	-	-	37,226
Bank debt	-	14,822	-	-	14,822
Subordinated debentures(1)	-	59,000	-	-	59,000
Subordinated term debt(1)	19,000	57,000	-	-	76,000
Future interest	14,063	14,297	-	-	28,360
Firm service commitments	1,140	1,824	909	189	4,062
Office lease commitments	472	961	-	-	1,433
Total	71,901	147,904	909	189	220,903

(1) Principal amount.

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 18 of the December 31, 2023 annual audited financial statements.

Critical Accounting Estimates

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

Assessment of Business Risk

Bonterra's exploration and production activities are concentrated in the Western Canadian Sedimentary Basin, where activity is highly competitive and includes a variety of different sized companies. Bonterra is subject to a number of risks that are also common to other organizations involved in the oil and gas industry. Such risks include finding and developing oil and gas reserves at economic costs; estimating amounts of recoverable reserves; production of oil and gas in commercial quantities; marketability of oil and gas produced; fluctuations in commodity prices; stock market volatility; debt servicing which may limit the market price of shares; financial and liquidity risks; environmental and safety risks; failure to realize benefits of acquisitions and dispositions; reliance on third party gathering, processing and pipeline systems; changes to applicable royalty regimes and environmental legislation and regulations; cyber security risks; and reliance on key personnel.

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

Additional information regarding risk factors including, but not limited to, business risks is available in the Company's Annual Information Form for the year ended December 31, 2023, which can be accessed on its website www.bonterraenergy.com or on SEDAR at www.sedarplus.com.

Environmental Risk

General Risks

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

Climate Change Risks

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

Additional information regarding risk factors including, but not limited to, environmental risks is available in the Company's Annual Information Form for the year ended December 31, 2023, which can be accessed on its website at www.bonterraenergy.com or on SEDAR at www.sedarplus.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; earnings sensitivity to interest rates; 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.

Disclosure Controls and Procedures

Disclosure controls and procedures ("DC&P"), as defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, are designed to provide reasonable assurance that information required to be disclosed in the Company's annual filings, interim fillings or other reports filed, or submitted by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified under securities legislation and include controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Chief Executive Officer and Chief financial Officer of Bonterra evaluated the effectiveness of the design and operation of the Company's DC&P. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that Bonterra's DC&P were effective at December 31, 2023.

Internal Controls Over Financial Reporting

Internal control over financial reporting ("ICFR"), as defined in National Instrument 52-109, includes those policies and procedures that:

1. Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of Bonterra;
2. Are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of Bonterra are being made in accordance with authorizations of management and Directors of Bonterra; and
3. Are designed to provide reasonable assurance regarding prevention or timely detection of authorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

The CEO and CFO have designed, or caused to be designed under their supervision, ICFR as defined in National Instrument 52-109 of the Canadian Securities Administrators, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The control framework the Company used to design its ICFR was in accordance with the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013).

The Company's CEO and CFO have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal controls over financial reporting at the financial period end of the Company and concluded that such internal controls over financial reporting are effective as of December 31, 2023.

It should be noted that while Bonterra's CEO and CFO believe that the Company's internal controls and procedures provide a reasonable level of assurance and are effective, they do not expect that these controls will prevent all errors and fraud.

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.

Deloitte LLP has been appointed by the Shareholders to serve as the Company's external auditors. They have examined the financial statements and provided their auditor's report. The audit committee has reviewed these financial statements with management and the auditors, and has reported to the Board of Directors. The Board of Directors has approved the financial statements as presented in this annual report.

"Signed Patrick G. Oliver"

Patrick G. Oliver
Chief Executive Officer
March 7, 2024

"Signed Robb D. Thompson"

Robb D. Thompson
Chief Financial Officer
March 7, 2024

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Bonterra Energy Corp.

Opinion

We have audited the financial statements of Bonterra Energy Corp. (the "Company"), which comprise the statements of financial position as at December 31, 2023 and 2022, and the statements comprehensive income, cash flow and changes in equity for the years then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Property, Plant and Equipment - Oil and gas properties - Refer to Notes 4 and 6 to the financial statements

Key Audit Matter Description

The Company's property, plant and equipment includes oil and gas properties. Oil and gas properties are measured by depleting the assets on a unit-of-production basis ("depletion") and are evaluated for impairment and impairment reversal using the future net cash flows of the underlying proved plus probable crude oil and natural gas reserves. The Company engages an independent reserve evaluator to estimate crude oil and natural gas reserves using estimates, assumptions and engineering data. The development of the Company's reserves and the related future net cash flows used to evaluate any impairment or impairment reversal requires management to make significant estimates and assumptions related to crude oil and natural gas prices, discount rates, reserves, and future costs.

Given the significant judgments made by management related to future crude oil and natural gas prices, discount rates, reserves, and future operating and development costs, these estimates and assumptions are subject to a high degree of estimation uncertainty. Auditing these estimates and assumptions required auditor judgement in applying audit procedures and in evaluating the results of those procedures. This resulted in an increased extent of audit effort.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to future crude oil and natural gas prices, discount rates, reserves, and future operating and development costs used to measure oil and gas properties included the following, among others:

- Evaluated future crude oil and natural gas prices by independently developing a reasonable range of forecasts based on reputable third-party forecasts and market data and comparing those to the future crude oil and natural gas prices selected by management.

- Evaluated the reasonableness of the discount rates by testing the source information underlying the determination of the discount rates and developing a range of independent estimates and comparing those to the discount rates selected by management.
- Evaluated the Company's independent reserve evaluator by examining reports and assessed their scope of work and findings; and assessing the competence, capability and objectivity by evaluating their relevant professional qualifications and experience.
- Evaluated the reasonableness of reserves by testing the source financial information underlying the reserves and comparing the reserve volumes to historical production volumes.
- Evaluated the reasonableness of future operating and development costs by testing the source financial information underlying the estimate, comparing future operating and development costs to historical results, and evaluating whether they are consistent with evidence obtained in other areas of the audit.
- Performed a retrospective review to evaluate management's ability to accurately forecast and to assess for indications of estimation bias over time.

Other Information

Management is responsible for the other information. The other information comprises:

Management's Discussion and Analysis
The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Christopher Gill.

"Signed Deloitte LLP"

Chartered Professional Accountants
Calgary, Alberta
March 7, 2024

STATEMENT OF FINANCIAL POSITION

As at ($ 000s)	Note	December 31, 2023	December 31, 2022
Assets			
Current			
Accounts receivable		**25,364**	27,326
Crude oil inventory		**893**	1,106
Prepaid expenses		**6,912**	7,208
Investment tax credit receivable		**-**	5,761
Risk management contract	17	**2,357**	798
Investments		**1,634**	2,028
		37,160	44,227
Exploration and evaluation assets	5	**5,785**	4,563
Property, plant and equipment	6	**924,925**	870,892
		967,870	919,682
Liabilities			
Current			
Accounts payable and accrued liabilities	7	**37,226**	35,573
Subordinated term debt	10	**19,000**	20,193
Deferred consideration		**909**	1,039
		57,135	56,805
Bank debt	8	**14,822**	17,601
Subordinated debentures	9	**52,585**	49,770
Subordinated term debt	10	**53,018**	69,882
Deferred consideration		**8,170**	9,051
Decommissioning liabilities	11	**123,108**	109,215
Deferred tax liability	12	**130,774**	127,519
		439,612	439,843
Shareholders' equity			
Share capital	13	**783,185**	781,679
Contributed surplus		**34,023**	31,705
Warrants	13	**6,053**	6,053
Accumulated other comprehensive income		**436**	784
Deficit		**(295,439)**	(340,382)
		528,258	479,839
		967,870	919,682
Commitments and contingencies	18		
Subsequent events	17, 20		

See accompanying notes to these financial statements.

On behalf of the Board:

"Signed Patrick G. Oliver" "Signed Rodger A. Tourigny"

Patrick G. Oliver
Director

Rodger A. Tourigny
Director

STATEMENT OF COMPREHENSIVE INCOME

For the years ended December 31 ($ 000s, except $ per share)	Note	2023	2022
Revenue			
Oil and gas sales, net of royalties	14	**273,113**	322,122
Other income	15	**1,560**	4,602
Deferred consideration		**1,009**	1,158
Gain (Loss) on risk management contracts	17	**3,360**	(11,513)
		279,042	316,369
Expenses			
Production		**83,064**	85,385
Office and administration		**5,245**	4,418
Employee compensation		**9,212**	7,489
Finance costs	16	**28,437**	21,647
Share-option compensation		**3,228**	1,910
Depletion and depreciation	6	**90,479**	90,951
		219,665	211,800
Earnings before income taxes		**59,377**	104,569
Taxes			
Current income tax expense	12	**11,134**	7,819
Deferred income tax expense	12	**3,300**	17,727
		14,434	25,546
Net earnings for the year		**44,943**	79,023
Other comprehensive income (loss)			
Unrealized (loss) gain on investments		**(394)**	1,137
Deferred taxes on unrealized loss (gain) on investments		**46**	(132)
Other comprehensive income (loss) for the year		**(348)**	1,005
Total comprehensive income for the year		**44,595**	80,028
Net earnings per share - basic	13	**1.21**	2.20
Net earnings per share - diluted	13	**1.20**	2.12
Comprehensive income per share - basic	13	**1.20**	2.22
Comprehensive income per share - diluted	13	**1.19**	2.15

See accompanying notes to these financial statements.

STATEMENT OF CASH FLOW

For the years ended December 31 ($ 000s)	Note	**2023**	2022
Operating activities			
Net earnings		**44,943**	79,023
Items not affecting cash			
Deferred income tax expense		**3,300**	17,727
Share-option compensation		**3,228**	1,910
Investment income		**(440)**	(221)
Finance costs	16	**28,437**	21,647
Unrealized gain on risk management contracts	17	**(1,559)**	(5,365)
Deferred consideration		**(1,009)**	(1,158)
Depletion and depreciation	6	**90,479**	90,951
Gain on sale of property		**(17)**	-
Government grant in-kind	19	**(782)**	(3,675)
Decommissioning expenditures		**(8,291)**	(5,930)
Interest paid	16	**(19,715)**	(14,284)
Changes in non-cash working capital accounts	16	**1,609**	2,928
Cash provided by operating activities		**140,183**	183,553
Financing activities			
Decrease of bank debt		**(2,779)**	(145,344)
Subordinated debt		**-**	(47,268)
Subordinated term debt	10	**(20,193)**	88,690
Proceeds from warrants exercised	13	**-**	4,270
Stock option proceeds		**596**	1,612
Cash used in financing activities		**(22,376)**	(98,040)
Investing activities			
Investment income received		**440**	221
Exploration and evaluation expenditures		**(1,222)**	(2,569)
Property, plant and equipment expenditures	6	**(125,256)**	(77,200)
Proceeds on sale of property		**28**	120
Changes in non-cash working capital accounts	16	**8,203**	(6,085)
Cash used in investing activities		**(117,807)**	(85,513)
Net change in cash in the year		**-**	**-**
Cash, beginning of year		**-**	-
Cash, end of year		**-**	-
The following are included in cash flow from operating activities:			
Income taxes paid		**9,625**	-

See accompanying notes to these financial statements.

STATEMENT OF CHANGES IN EQUITY

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

	Numbers of common shares outstanding (Note 13)	Share capital (Note 13)	Contributed surplus [1]	Warrants	Accumulated other comprehensive income (loss)[2]	Deficit	Total shareholders' equity
January 1, 2022	35,000,952	772,781	31,599	7,265	(221)	(419,405)	392,019
Share-option compensation			1,910				1,910
Exercise of options	1,360,940	1,612					1,612
Transfer to share capital on exercise of options		1,804	(1,804)				-
Exercise of warrants	551,000	4,270					4,270
Transfer to share capital on exercise of warrants		1,212		(1,212)			-
Comprehensive income					1,005	79,023	80,028
December 31, 2022	36,912,892	781,679	31,705	6,053	784	(340,382)	479,839
Share-option compensation			3,228				3,228
Exercise of options	340,360	596					596
Transfer to share capital on exercise of options		910	(910)				-
Comprehensive income (loss)					(348)	44,943	44,595
December 31, 2023	37,253,252	783,185	34,023	6,053	436	(295,439)	528,258

(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 financial statements.

NOTES TO THE FINANCIAL STATEMENTS

As at and for the years ended December 31, 2023 and December 31, 2022

1. NATURE OF BUSINESS AND SEGMENT INFORMATION

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

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

2. BASIS OF PREPARATION AND FUTURE OPERATIONS

a) Statement of Compliance

These financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS).

The financial statements were authorized for issue by the Company's Board of Directors on March 7, 2024.

b) Basis of Measurement

These financial statements have been prepared on a historical cost basis, except for certain financial instruments and share-based payment transactions which are measured at fair value.

c) Functional and Presentation Currency

The Company's functional and presentation currency is the Canadian dollar.

Foreign currency denominated monetary assets and liabilities are translated into Canadian dollars at the rates prevailing on the reporting date. Non-monetary assets and liabilities are translated into Canadian dollars at the rates prevailing on the transaction dates. Exchange gains and losses are recorded as income or expense in the period in which they occur.

d) Material Accounting Estimates and Judgments

The timely preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the statement of financial position as well as the reported amounts of revenues, expenses and cash flows during the periods presented. Such estimates relate primarily to unsettled transactions and events as of the date of the financial statements. Actual results could differ materially from estimated amounts. See Note 4 for more information.

e) 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.

f) 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. MATERIAL ACCOUNTING POLICIES

a) Revenue Recognition

Revenue associated with the sale of crude oil, natural gas and natural gas liquids is measured based on the consideration specified in contracts with customers. Revenue from contracts with customers is recognized when or as Bonterra satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. The transfer of control of oil, natural gas, and natural gas liquids usually coincides with title passing to the customer and the customer taking physical possession. The Company principally satisfies its performance obligations at a point in time and the amounts of revenue recognized relating to performance obligations satisfied over time are not significant. Collection of revenue associated with the sale of crude oil, natural gas and natural gas liquids occurs on or about the 25th of the month following production. Items such as royalties for Crown, freehold, gross overriding (GORR) and Saskatchewan surcharge are netted against revenue. These items are netted to reflect the deduction for other parties' proportionate share of the revenue. Administration fee income is recorded when services are provided.

b) Joint Arrangements

Certain exploration, development and production activities are conducted jointly with others. These financial statements reflect only the Company's interests in such activities. A jointly controlled operation involves the use of assets and other resources of the Company and those of other joint venture participants through contractual arrangements rather than through the establishment of a corporation, partnership or other entity. The Company has no interests in jointly controlled entities. The Company recognizes in its financial statements its interest in assets that it owns, the liabilities and expenses that it incurs, and its share of income earned by the joint arrangement.

c) Inventories

Inventories consist of crude oil. Crude oil stored in the Company's tanks is valued on a first-in, first-out basis at the lower of cost or net realizable value. The inventory cost for crude oil is determined based on the combined average per barrel operating costs, and depletion and depreciation for the period, while net realizable value is determined based on estimated sales price less transportation costs.

d) Investments

Investments consist of equity securities. The Company's investments are measured as fair value through other comprehensive income ("FVTOCI"), with gains or losses arising from changes in fair value recognized in other comprehensive income and accumulated in the fair value instrument. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the investments. Fair value is determined by multiplying the period end trading price of the investments by the number of common shares held as at period end.

e) Exploration and Evaluation Assets

General exploration and evaluation ("E&E") expenditures incurred prior to acquiring the legal right to explore are charged to expense as incurred.

E&E expenditures represent undeveloped land costs, licenses and exploration well costs.

Undeveloped land costs, licenses and exploration well costs are initially capitalized and, if subsequently determined to have not found sufficient reserves to justify commercial production, are charged to expense. E&E assets continue to be capitalized as long as sufficient progress is being made to assess the reserves and economic viability of the asset. Once technical feasibility and commercial viability has been established, E&E assets are transferred to property, plant and equipment ("PP&E"). E&E assets are assessed for impairment annually, upon transfer to PP&E assets or whenever indications of impairment exist to ensure they are not at amounts above their recoverable amounts.

f) Property, Plant and Equipment

PP&E assets include transferred-in E&E costs, development drilling and other subsurface expenditures. PP&E assets are carried at cost less depletion and depreciation of all development expenditures and include all other expenditures associated with PP&E assets.

Oil and Gas Properties

The initial cost of an asset is comprised of its purchase price or construction cost, including expenditures such as drilling costs; the present value of the initial and changes in the estimate of any decommissioning obligation associated with the asset; and finance charges on qualifying assets that are directly attributable to bringing the asset into operation and to its present location.

Production Facilities

Production facilities are comprised of costs related to petroleum and natural gas plant and production equipment.

Leases

Leases or contractual obligations are capitalized as right of use assets ("ROUs") with a corresponding right of use lease obligation using the present value of future lease payments on the statement of financial position. The discount rate used to determine the ROU is the stated rate in the lease contract. If no discount rate is provided, the Company’s incremental borrowing rate is used. Certain lease payments will continue to be expensed in the statement of comprehensive income. These leases are contractual obligations that contain any of the following: are equal to or less than twelve months; are for oil and gas extraction; are variable payments; the Company does not control the asset; or no asset is identified in the lease.

Depletion and Depreciation

Depletion and depreciation is recognized in the statement of comprehensive income (loss).

PP&E properties, excluding surface costs are depleted using the unit-of-production method over their proved plus probable developed reserve life, when commercial production in an area has commenced. Proved plus probable developed reserves are determined annually by qualified independent reserve engineers. Changes in factors such as estimates of proved plus probable developed reserves that affect unit-of-production calculations are accounted for on a prospective basis. Surface costs such as production facilities and furniture, fixtures and other equipment are depreciated over their estimated useful lives.

Production facilities, furniture, fixtures and other equipment are depreciated over the individual assets estimated economic lives, less estimated salvage value of the assets at the end of their useful lives.

These assets are depreciated as follows:

Production facilities	Declining balance method at 10 percent per year
Furniture, fixtures and other equipment	Declining balance method at 10 to 20 percent per year
Right of use assets	Straight line method over the term of the associated lease

g) Business Combinations and Goodwill

The purchase price used in a business combination is based on the fair value at the date of acquisition. The business combination is accounted for based on the fair value of the assets acquired and liabilities assumed. All acquisition costs are expensed as incurred. Contingent liabilities are recognized at fair value at the date of the acquisition, and subsequently re-measured at each reporting period until settled. The excess of cost over fair value of the net assets and liabilities acquired is recorded as goodwill.

h) Impairment of Assets

Impairment of Financial Assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flow of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flow discounted at the original effective interest rate. Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in net earnings. An impairment loss is reversed if there is an indicator that the impairment reversal can be related objectively to an event occurring after the impairment loss was recognized. Any subsequent recovery of an impairment loss in respect of an investment in an equity instrument classified as FVTOCI is reversed through other comprehensive income instead of net earnings. For financial assets measured at amortized cost, the reversal is recognized in net earnings.

Impairment of Non-Financial Assets

The carrying amounts of the Company's non-financial assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If such indication exists, then the assets’ carrying amounts are assessed for impairment.

For the purpose of impairment testing, assets (which include E&E, PP&E and goodwill) are grouped together into the smallest group of assets that generate cash flows from continuing use which are largely independent of the cash flow of other assets or groups of assets (the cash-generating unit or “CGU”). Goodwill is allocated to the CGU expected to benefit from the synergies of the combination. The recoverable amount of an asset or a CGU is the greater of its value-in-use (“VIU”) and its fair value less costs to sell (“FVLCS”). The Company has a core CGU composed of its Alberta properties and secondary CGUs for its British Columbia (BC) and Saskatchewan properties.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive income (loss). Impairment losses recognized in respect of a CGU are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other assets of the CGU on a pro-rata basis.

In respect of assets other than goodwill, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the impairment loss has reversed. If the amount of the impairment loss reverses in a subsequent period and the reversal can be objectively related to an event occurring after the impairment was recognized, the impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized and recorded in the statement of comprehensive income (loss). An impairment loss in respect of goodwill cannot be reversed.

i) Deferred Consideration

Deferred consideration is generated when a sale of a royalty interest linked to production at a specific property occurs. Consideration is given to the specific terms of each arrangement to determine whether a disposal of an interest in the reserves of the respective property has occurred and whether the counterparty is entitled to the associated risks and rewards attributable to the property over its estimated life. These include the contractual terms and implicit obligations related to production, such as the holder of the royalty having the option of either being paid in cash or in kind and the associated commitments, if any, to develop future expansions or projects at the property.

Proceeds for sale of a royalty interest on petroleum properties are then attributed to two components: a payment for partial disposal of an interest in PP&E; and an upfront payment received for future extraction services that will generate future royalties. Discounted future cash flows of future development and operating costs multiplied by the royalty rate are used to derive the upfront payment received for future extraction services, which is accounted for as deferred consideration and recognized as revenue over the reserve life of the encumbered properties (as this represents the efforts incurred towards the extraction performance obligation). Upon commencement of the royalty interest the deferred consideration is depleted (recognized into revenue) using the same unit-of-production method as the depletion of the encumbered PP&E asset’s carrying value.

j) Decommissioning Liabilities

The fair value of the statutory, contractual, constructive or legal liabilities associated with the retirement and reclamation of oil and gas properties is recorded when incurred, with a corresponding increase to the carrying amount of the related PP&E. The amount recognized is the estimated cost of decommissioning, discounted to its present value using the Company’s risk-free rate. Changes in the estimated timing of decommissioning or decommissioning cost estimates and changes to the risk-free rates are dealt with prospectively by recording an adjustment to the decommissioning liabilities, and a corresponding adjustment to PP&E. The unwinding of the discount on the decommissioning provision is charged to net earnings as a finance cost.

The Company recognizes a decommissioning liability in the period in which it is incurred when a reasonable estimate of the liability can be made. On a periodic basis, management will review these estimates and changes and if there are any, they will be applied prospectively. The fair value of the estimated provision is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a unit-of-production basis over the life of the proved plus probable developed reserves. The liability amount is increased each reporting period due to the passage of time and this amount is charged to earnings in the period. Actual costs incurred upon settlement of the obligations are charged against the provision to the extent of the liability recorded and any remaining balance of actual costs is recorded in the statement of comprehensive income (loss).

k) Income Taxes

Tax expense comprises current and deferred taxes. Tax is recognized in the statement of comprehensive income (loss) or directly in equity.

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that are substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognized using the liability method, providing for unused tax losses, unused tax credits and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they are unlikely to be reversed in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which unused tax losses, unused tax credits and temporary differences can be utilized. Deferred tax assets are reviewed at each period end and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The amount and timing of reversals of temporary differences will also depend on the Company's future operating results, and acquisitions and dispositions of assets and liabilities. A significant change in any of the preceding assumptions could materially affect the Company's estimate of the deferred income tax asset or liability.

l) Share-option Compensation

The Company accounts for share-option compensation using the fair-value method of accounting for stock options granted to directors, officers, employees and other service providers using the Black-Scholes option pricing model. Share-option payments are recognized through the statement of comprehensive income (loss) over the vesting period with a corresponding amount reflected in contributed surplus in equity. For awards issued in tranches that vest at different times, the fair value of each tranche is recognized over its respective vesting period.

At the grant date and at the end of each reporting period, the Company assesses and re-assesses for subsequent periods its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions in the statement of comprehensive income (loss). Upon exercise of share-based options, the proceeds received net of any transaction costs and the fair value of the exercised share-based options is credited to share capital.

Employees may elect to have the Company settle any or all options vested and exercisable using a cashless equity settlement. In connection with any such exercise, an employee shall be entitled to receive, without any cash payment (other than the taxes required to be paid in connection with the exercise), whole shares of the Company. The number of shares under option multiplied by the difference of the fair value at the time of exercise less the option exercise price, divided by the fair value at the time of exercise, determines the number of whole shares issued.

m) Financial Instruments

The Company classifies its financial instruments into one of the following categories: financial assets at amortized cost, financial liabilities at amortized costs; and fair value through profit or loss. All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods is dependent on the classification of the respective financial instrument.

Fair value through profit or loss financial instruments are subsequently measured at fair value with changes in fair value recognized in net earnings. All other categories of financial instruments are measured at amortized cost using the effective interest rate method.

Cash, account receivables and certain other long-term assets are classified as financial assets at amortized cost since it is the Company's intention to hold these assets to maturity and the related cash flows are mainly payments of principle and interest. The Company's investments are measured at FVTOCI, with gains or losses arising from changes in fair value recognized in other comprehensive income and accumulated in the fair value instrument. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the investments. Accounts payable, accrued liabilities, and certain other long-term liabilities and long-term debt are classified as financial liabilities at amortized cost. Risk management assets and liabilities are classified as fair value through profit or loss.

n) Fair Value Measurement

Financial instruments consisting of accounts receivable, accounts payable and accrued liabilities, due to related party, subordinated promissory note and bank debt on the statement of financial position are carried at amortized cost. Investments and investment in related party are carried at fair value. All of the investments are transacted in active markets. Bonterra determines the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Bonterra's investments and investments in related party have been assessed on the fair value hierarchy described above and are all considered Level 1.

o) Risk Management Contracts

The Company is exposed to market risks resulting from fluctuations in commodity prices, foreign currency exchange rates and interest rates in the normal course of its business. The Company may use a variety of instruments to manage these exposures. For transactions where hedge accounting is not applied, the Company accounts for such instruments using the fair value method by initially recording an asset or liability and recognizing changes in the fair value of the instruments in earnings as unrealized gains or losses on risk management contracts. Fair values of financial instruments are based on third party quotes or valuations provided by independent third parties. Any realized gains or losses on risk management contracts are recognized in net earnings in the period they occur. Bonterra's risk management contracts have been assessed on the fair value hierarchy described above and are all considered Level 2.

p) Net Earnings and Comprehensive Income Per Share

Per share amounts are calculated by dividing the net earnings or comprehensive income (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the reporting period.

Diluted per share amounts are calculated similar to basic per share amounts except that the weighted average common shares outstanding are increased to include additional common shares from the assumed exercise of dilutive share-options. The number of additional outstanding common shares is calculated by assuming that the outstanding in-the-money share-options were exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting period.

q) Government Grants

The Company may receive government grants which provide financial assistance as compensation for costs or expenditures to be incurred. Government grants are accounted for when there is reasonable assurance that conditions attached to the grants are met and that the grants will be received. The Company recognizes government grants in net earnings on a systematic basis and in line with recognition of the expenses that the grants are intended to compensate.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. The following are the estimates and judgments applied by management that most significantly affect the Company’s financial statements.

Exploration and Evaluation Expenditures

E&E costs are initially capitalized with the intent to establish commercially viable reserves. E&E assets include undeveloped land and costs related to exploratory wells. The Company is required to make estimates and judgments about future events and circumstances regarding the future economic viability of extracting the underlying resources. Changes to project economics, resource quantities, expected production techniques, unsuccessful drilling, expired mineral leases, production costs and required capital expenditures are important factors when making this determination. To the extent a judgment is made that the underlying reserves are not viable, the E&E costs will be impaired and charged to net earnings.

Impairment of Non-Financial Assets

PP&E and goodwill are aggregated into CGUs based on their ability to generate largely independent cash flows and are assessed for impairment or in the case of PP&E impairment reversals. CGUs have been determined based on similar geological structure, shared infrastructure, geographical proximity, commodity type, and similar market risks. Oil and gas prices and other assumptions will change in the future, which may impact the Company’s recoverable amounts and may therefore require a material adjustment to the carrying value of PP&E. The determination of the Company's CGUs is subject to management's judgment. The Company has a core CGU composed of its Alberta properties and secondary CGUs for its BC and Saskatchewan properties.

The recoverable amount of E&E and PP&E, is determined based on the fair value less costs of disposal using a discounted cash flow model and is assessed at the CGU level. The period the Company used to project cash flows is approximately 50 years or the CGUs reserve life. Growth in cash flow from a single well would be determined based on the extent of total reserves assigned, which is produced at declining rates over the estimated reserve life. The fair value measurement of the Company’s E&E and PP&E, is designated Level 3 on the fair value hierarchy.

The Company performs an impairment test on all of its CGUs for any potential impairment or related recovery at least annually or when impairment or recovery indicators arise. In making these evaluations, the Company uses the following information:

1) The net present value of the pre-tax cash flows from oil and gas reserves of each CGU based on total proved plus probable reserves estimated by the Company's independent reserve evaluator; and

2) Key input estimates used in the determination of cash flows from oil and gas reserves include the following:

   a) Reserves - Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being revised.

   b) Crude oil and natural gas prices - Forward price estimates of the crude oil and natural gas prices are used in the discounted cash flow model. These prices are adjusted for quality differentials, heat content and distance to market. Commodity prices have fluctuated widely in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, exchange rates, weather, economic and geopolitical factors.

   c) Discount rate - The Company uses a pre-tax discount rate of fifteen percent that reflects risks specific to the assets for which the future cash flow estimates have not been adjusted. The discount rate was determined based on the Company's assessment of risk based on past experience. Changes in the general economic environment could result in material changes to this estimate.

No indicators of impairment or impairment reversal were identified at December 31, 2023.

Reserves Estimation

The capitalized costs of oil and gas properties and deferred consideration are depleted on a unit-of-production basis at a rate calculated by reference to proved plus probable developed reserves determined in accordance with National Instrument 51-101 and the Canadian Oil and Gas Evaluation handbook. Commercial reserves are determined using best estimates of oil and gas in place, recovery factors and future oil and gas prices. Amounts used for impairment calculations are also based on estimates of crude oil and natural gas reserves and future costs required to develop those reserves.

Risk Management Contract

The Company accounts for such instruments using the fair value method by initially recording an asset or liability, and recognizing changes in the fair value of the instruments in net earnings as unrealized gains or losses on risk management contracts. Fair values of financial instruments are based on third party futures quotes for commodities. Any realized or unrealized gains or losses on risk management contracts are recognized in net earnings in the period they occur.

Share-option Compensation

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date they are granted. Estimating the fair value requires the determination of the most appropriate valuation model for a grant, which is dependent on the terms and conditions of the grant. This also requires the determination of the most appropriate inputs to the valuation model including the expected life of the option, risk-free interest rates, volatility and dividend yield.

Deferred Consideration

Deferred consideration is incurred when the sale of a royalty interest occurs that has contractual terms or implicit obligations that requires future performance such future development costs and operating costs. Management uses judgments in determining those cash flows such as cost, inflation and the discount rate to determine the portion of proceeds that is deferred.

Decommissioning and Restoration Costs

Decommissioning and restoration costs will be incurred by the Company at the end of the operating lives of the Company's oil and gas properties. Provisions for decommissioning liabilities are based on cost estimates which can vary in response to many factors including timing of abandonment, inflation, changes in legal requirements, new restoration techniques and interest rates.

Income Taxes

The Company recognizes the net deferred tax benefit or expense related to deferred income tax assets or liabilities to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of investment tax credit receivable requires the Company to make significant estimates related to expectations of future taxable income. The provision for income taxes is based on judgments in applying income tax law and estimates of the timing, likelihood and reversal of temporary differences between the accounting and tax basis of assets and liabilities. The ability to realize on the deferred tax assets and investment tax credit receivable that are recorded on the balance sheet may be compromised to the extent that any interpretation of tax law is challenged or taxable income differs significantly from estimates.

Further details regarding accounting estimates and judgments are disclosed in Note 3.

5. EXPLORATION AND EVALUATION ASSETS

($ 000s)	
Cost and carrying amount	
Balance at January 1, 2022	1,994
Additions	2,569
Balance at December 31, 2022	4,563
Additions	1,222
Balance at December 31, 2023	**5,785**

6. PROPERTY, PLANT AND EQUIPMENT

Cost ($ 000s)	**Oil and gas properties**	**Production facilities**	**Furniture fixtures & other equipment**	**Total property plant & equipment**
Balance at January 1, 2022	1,508,050	390,725	2,310	1,901,085
Additions	52,589	24,458	153	77,200
Disposal	(120)	-	(2)	(122)
Adjustment to decommissioning liabilities	(18,125)	-	-	(18,125)
Balance at December 31, 2022	1,542,394	415,183	2,461	1,960,038
Additions	93,907	30,948	401	125,256
Disposal	-	-	(51)	(51)
Adjustment to decommissioning liabilities	19,212	-	-	19,212
Balance at December 31, 2023	**1,655,513**	**446,131**	**2,811**	**2,104,455**

Accumulated depletion and depreciation ($ 000s)	**Oil and gas properties**	**Production facilities**	**Furniture fixtures & other equipment**	**Total property plant & equipment**
Balance at January 1, 2022	(815,411)	(180,912)	(1,912)	(998,235)
Depletion and depreciation	(74,455)	(16,406)	(90)	(90,951)
Disposal and other	40	-	-	40
Balance at December 31, 2022	(889,826)	(197,318)	(2,002)	(1,089,146)
Depletion and depreciation	(72,615)	(17,728)	(136)	(90,479)
Disposal and other	54	-	41	95
Balance at December 31, 2023	**(962,387)**	**(215,046)**	**(2,097)**	**(1,179,530)**

Carrying amounts as at: ($ 000s)				
December 31, 2022	652,568	217,865	459	870,892
December 31, 2023	**693,126**	**231,085**	**714**	**924,925**

Impairment

There were no indicators of impairment losses or reversals identified for the year ended December 31, 2023 and December 31, 2022.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

($ 000s)	**December 31, 2023**	December 31, 2022
Accounts payable	**30,625**	27,701
Accrued liabilities	**6,601**	7,872
	37,226	35,573

8. BANK DEBT

As at December 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 December 31, 2023 was $14,822,000 (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 December 31, 2023, the terms of the total revolving Bank Facility provided that the loan facility was revolving to April 30, 2024, with a maturity date of April 30, 2025, with no set terms of repayment on the credit facility. The terms of the revolving Bank Facility were confirmed on October 25, 2023. The Company is subject to the next semi-annual determination by April 30, 2024.

The amount available for borrowing under the Bank Facility is reduced by outstanding letters of credit. Letters of credit totaling $2,130,000 were issued as at December 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 trailing twelve months EBITDA Ratio shall not exceed 2.50:1.00; and
- Asset Coverage Ratio of not less that 1.50:1.

Asset Coverage ratio is defined as the proved developed producing reserves of the Company (before income tax; discounted at 10 percent), as evaluated by an independent third-party engineering report as at December 31, 2023 and evaluated on strip commodity pricing, divided by the consolidated debt of the Company. The ratio is calculated and revaluated for strip pricing on June 30 and December 31 period ends.

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

9. SUBORDINATED DEBENTURES

As at December 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. Interest paid in 2023 was $5,310,000 (December 31, 2022 - $5,310,000).

The unsecured subordinated debentures were determined to be a compound instrument with a debt and equity component. Based on the calculated fair value of the debentures, the effective interest rate was determined on issuance to be 15.6 percent using the effective interest rate method, by discounting future payments of interest and principal with the residual value allocated to Warrants and issue costs. The value of the debt will accrete up to the principal balance at maturity. For more information about Warrants please see Note 13.

10. SUBORDINATED TERM DEBT

As at December 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 December 31, 2023 was $76,000,000 (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 December 31, 2023, the effective interest rate was determined to be 16.4 percent using the effective interest rate method. The effective interest rate was calculated by discounting future payments of interest and principal with the residual value allocated to issue costs of $6,310,000. The value of the debt will accrete up to the principal balance at maturity. Interest paid in 2023 was $11,046,000 (December 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 December 31, 2023, Bonterra was in compliance with all financial covenants on its second lien Subordinated Term Debt facility (as described in Note 8).

11. DECOMMISSIONING LIABILITIES

At December 31, 2023, the estimated total uninflated and undiscounted amount required to settle the decommissioning liabilities was $176,425,000 (December 31, 2022- $178,183,000). The provision has been calculated assuming a 2.0 percent inflation rate (December 31, 2022 – 2.0 percent inflation rate). These obligations will be settled at the end of the useful lives of the underlying assets, which extend up to 50 years into the future. This amount has been discounted using a risk-free interest rate of 2.87 percent (December 31, 2022 – 3.27 percent).

($ 000s)	**December 31, 2023**	December 31, 2022
Decommissioning liabilities, January 1	**109,215**	135,815
Changes in estimate[1]	**19,212**	(18,125)
Liabilities settled during the year[2]	**(8,307)**	(8,367)
Government grant in-kind (Note 19)	**(782)**	(3,675)
Accretion on decommissioning liabilities	**3,770**	3,567
Decommissioning liabilities, end of year	**123,108**	109,215

[1] The change is estimate was primarily due to an increase in estimated costs less a decrease in the discount rate.
[2] Included in liabilities settled is $2,455,000 of abandonment deposits (December 31, 2022 - $2,437,000).

12. INCOME TAXES

($ 000s)	December 31, 2023	December 31, 2022
Deferred tax asset (liability) related to:		
Investments	**(75)**	(120)
Exploration and evaluation assets and property, plant and equipment	**(152,653)**	(145,019)
Investment tax credits	**(1,216)**	(2,040)
Decommissioning liabilities	**28,899**	25,700
Share issue costs	**1,141**	1,566
Financial derivative	**(543)**	(184)
Subordinated debenture	**(1,476)**	(2,125)
Subordinated term debt	**(916)**	(1,408)
Corporate capital tax losses carried forward	**7,448**	7,449
Unrecorded benefits of capital tax losses carried forward	**(7,374)**	(7,329)
Unrecorded benefits of successored resource related pools	**(4,009)**	(4,009)
Deferred tax liability	**(130,774)**	(127,519)

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

($ 000s)	December 31, 2023	December 31, 2022
Earnings before taxes	**59,377**	104,569
Combined federal and provincial income tax rates	**23.02%**	23.03%
Income tax provision calculated using statutory tax rates	**13,666**	24,082
Increase (decrease) in taxes resulting from:		
Share-option compensation	**743**	440
Renouncement of tax pool on flow through share issuance	**-**	1,257
Change in unrecorded benefits of tax pools	**45**	(205)
Change in estimates and other	**(20)**	(28)
	14,434	25,546

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	65,792
Share issue and financing costs	20	4,957
Canadian oil and gas property expenditures	10	60,998
Canadian development expenditures	30	121,141
Canadian exploration expenditures	100	8,587
		261,475

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

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

13. SHAREHOLDERS' EQUITY

Authorized

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

	December 31, 2023		December 31, 2022	
Issued and fully paid - common shares	**Number**	**Amount ($ 000s)**	Number	Amount ($ 000s)
Balance, beginning of year	**36,912,892**	**781,679**	35,000,952	772,781
Issued pursuant to the Company's share option plan	**340,360**	**596**	1,360,940	1,612
Transfer from contributed surplus to share capital		**910**		1,804
Issued pursuant to the exercise of warrants			551,000	4,270
Transfer from warrants to share capital				1,212
Balance, end of year	**37,253,252**	**783,185**	36,912,892	781,679

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

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

	2023	2022
Basic shares outstanding	**37,197,337**	35,968,921
Dilutive effect of share options and warrants (1)	**134,317**	1,314,945
Diluted shares outstanding	**37,331,654**	37,283,866

(1) The Company did not include 5,496,849 share-options and warrants (December 31, 2022 – 1,756,844) 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 December 31, 2023 and changes during the period are presented below:

	Number of warrants	**Weighted exercise price**
At January 1, 2022	3,304,000	$7.75
Warrants exercised	(551,000)	7.75
As at December 31, 2022 and December 31, 2023	2,753,000	$7.75

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

Options

The Company provides an equity settled option plan for its directors, officers, and employees. Under the plan, the Company may grant options for up to 3,725,325 (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 December 31, 2023 and changes during the period are presented below:

	Number of options	**Weighted average exercise price**
At January 1, 2022	2,261,600	$2.56
Options granted	2,051,500	8.10
Options exercised[(1)]	(1,544,850)	2.12
Options forfeited	(2,500)	3.14
Options expired	(14,000)	17.76
At December 31, 2022	2,751,750	$6.86
Options granted	1,171,000	5.47
Options exercised[(1)]	(446,750)	2.92
Options forfeited	(171,000)	7.81
Options expired	(45,000)	5.18
At December 31, 2023	3,260,000	$6.87

(1) 247,000 options (December 31, 2022 - 720,250) were exercised under the cashless option method, which resulted in 140,610 (December 31, 2022 – 536,340) 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 December 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	198,500	0.8 years	$ 3.38	125,000	$ 2.83
5.01 - 10.00	3,016,500	4.0 years	7.02	615,807	8.00
10.01 - 15.00	45,000	1.4 years	12.32	15,000	12.32
$ 1.00 - $ 15.00	3,260,000	3.8 years	$ 6.87	755,807	$ 7.23

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 1,171,000 options with an estimated fair value of $2,084,000 or $1.78 per option using the Black-Scholes option pricing model with the following key assumptions:

	December 31, 2023	December 31, 2022
Weighted-average risk free interest rate (%)[(1)]	**3.85**	2.59
Weighted-average expected life (years)	**2.0**	2.0
Weighted-average volatility (%)[(2)]	**55.78**	75.06
Forfeiture rate (%)	**6.40**	7.20
Weighted average dividend yield (%)	**0.37**	1.52

(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.

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.

14. OIL AND GAS SALES, NET OF ROYALTIES

($ 000s)	**December 31, 2023**	December 31, 2022
Oil and gas sales		
Crude oil	**256,745**	295,046
Natural gas liquids	**24,212**	27,497
Natural gas	**38,560**	61,654
	319,517	384,197
Less royalties:		
Crown	**(32,953)**	(44,842)
Freehold, gross overriding royalties and other	**(13,451)**	(17,233)
	(46,404)	(62,075)
Oil and gas sales, net of royalties	**273,113**	322,122

15. OTHER INCOME

($ 000s)	**December 31, 2023**	December 31, 2022
Investment income	**440**	221
Administrative income	**321**	706
Gain on sale of property and equipment	**17**	-
Government grant in-kind (Note 19)	**782**	3,675
Other income	**1,560**	4,602

16. SUPPLEMENTAL CASH FLOW INFORMATION

($ 000s)	**December 31, 2023**	Decmber 31, 2022
Change in non-cash working capital:		
Accounts receivable	**1,962**	(3,111)
Crude oil inventory	**159**	(158)
Prepaid expenses	**296**	(1,286)
Investment tax credit receivable	**5,761**	3,100
Abandonment deposit	**(19)**	(2,437)
Accounts payable and accrued liabilities	**1,653**	735
	9,812	(3,157)
Changes related to:		
Operating activities	**1,609**	2,928
Investing activities	**8,203**	(6,085)
	9,812	(3,157)

Finance expense

($ 000s)	**December 31, 2023**	Decmber 31, 2022
Interest expense:		
Bank and subordinated debt	**3,359**	8,974
Subordinated debenture	**5,310**	5,310
Subordinated term debt	**11,046**	1,193
	19,715	15,477
Accretion:		
Decommissioning liabilities	**3,770**	3,567
Subordinated debentures	**2,816**	2,411
Subordinated term debt	**2,136**	192
	8,722	6,170
Total finance costs	**28,437**	21,647
Interest expense	**19,715**	15,477
Interest accrued	**-**	(1,193)
Interest paid	**19,715**	14,284

17. FINANCIAL RISK MANAGEMENT

Financial Risk Factors

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

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

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

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

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

Liquidity Risk Management

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

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

Credit Risk

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

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

- Agreements for product sales are primarily on 30-day renewal terms. Of the $25,364,000 accounts receivable balance at December 31, 2023 (December 31, 2022 - $27,326,000) over 83 percent (December 31, 2022 – 93 percent) relate to product sales or risk management contracts with national and international banks and oil and gas companies.

On a quarterly basis, Bonterra assesses if there has been any impairment of the financial assets of the Company. During the year ended December 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 December 31, 2023, approximately $591,000 or 2.3 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 December 31, 2023 is $1,878,000 (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 EBITDA. This ratio is calculated using each quarter end net debt divided by the preceding twelve months' EBITDA. At December 31, 2023, the Company had a net debt to EBITDA level of 0.8:1 compared to 0.7:1 as at December 31, 2022. The increase in Bonterra's net debt to EBITDA ratio is primarily due to a decrease in EBITDA from lower commodity prices. The net debt to EBITDA ratio is expected to improve in subsequent quarters due to the Company's focus on debt reduction paired with increased production and future cash flow protection from having 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 EBITDA ratio

The net debt and EBITDA amounts are as follows:

($ 000s)	**December 31, 2023**	December 31, 2022
Bank debt	**14,822**	17,601
Subordinated debentures	**52,585**	49,770
Subordinated term debt[(1)]	**53,018**	69,882
Current liabilities	**57,135**	56,805
Current assets	**(37,160)**	(44,227)
Net debt	**140,400**	149,831
Net earnings	**44,943**	79,023
Adjustments to net earnings:		
Unrealized gain on risk management contracts	**(1,559)**	(5,365)
Deferred consideration	**(1,009)**	(1,158)
Finance costs	**28,437**	21,647
Share-option compensation	**3,228**	1,910
Depletion and depreciation	**90,479**	90,951
Current income tax expense	**11,134**	7,819
Deferred income tax expense	**3,300**	17,727
EBITDA (trailing twelve months)	**178,953**	212,554
Net debt to EBITDA ratio	**0.8**	0.7

(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 December 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]	200 BBL/day	Apr 1, 2024	to	Jun 30, 2024	70.00	to	90.00	USD/BBL
Gas	Physical collar - AECO Monthly[5]	5,000 GJ/day	Jan 1, 2024	to	Mar 31, 2024	2.75	to	3.45	CAD/GJ
Gas	Physical collar - AECO Monthly[5]	6,000 GJ/day	Apr 1, 2024	to	Jun 30, 2024	2.15	to	2.75	CAD/GJ
Gas	Fixed Price - AECO Daily[4]	5,000 GJ/day	Jan 1, 2024	to	Jan 31, 2024	-		1.81	CAD/GJ
Gas	Fixed Price - AECO Daily[4]	5,000 GJ/day	Feb 1, 2024	to	Feb 29, 2024	-		1.84	CAD/GJ
Gas	Fixed Price - AECO Daily[4]	5,000 GJ/day	Jan 1, 2024	to	Jan 31, 2024	-		1.82	CAD/GJ

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

Subsequent to December 31, 2023, the Company entered into the following physical delivery sales contract.

Product	Type of contract	Volume	Term			Contract price ($)	
Gas	Fixed Price - AECO Daily	2,500 GJ/day	Apr 1, 2024	to	Oct 31, 2025	2.39	CAD/GJ

Risk Management Contracts

($ 000s)	**December 31, 2023**	December 31, 2022
Risk management contracts		
Realized gain (loss)	**1,801**	(16,878)
Unrealized gain	**1,559**	5,365
	3,360	(11,513)

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

As of December 31, 2023, the Company has the following risk management contracts in place.

Product	Type of contract	Volume	Term			Contract price ($)			
Oil	Financial collar - WTI	500 BBL/day	Jan 1, 2024	to	Mar 31, 2024	50.00	to	88.25	USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Jan 1, 2024	to	Mar 31, 2024	50.00	to	84.85	USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Jan 1, 2024	to	Mar 31, 2024	50.00	to	85.00	USD/BBL
Oil	Financial collar - WTI	300 BBL/day	Jan 1, 2024	to	Mar 31, 2024	50.00	to	85.50	USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Jan 1, 2024	to	Mar 31, 2024	50.00	to	85.60	USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Apr 1, 2024	to	Jun 30, 2024	60.00	to	93.35	USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Apr 1, 2024	to	Jun 30, 2024	60.00	to	92.00	USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Apr 1, 2024	to	Jun 30, 2024	65.00	to	92.85	USD/BBL
Oil	Financial collar - WTI	400 BBL/day	Apr 1, 2024	to	Jun 30, 2024	65.00	to	93.75	USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Jul 1, 2024	to	Sep 30, 2024	70.00	to	90.00	USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Jul 1, 2024	to	Dec 31, 2024	65.00	to	92.80	USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Jul 1, 2024	to	Dec 31, 2024	65.00	to	84.50	USD/BBL
Oil	Financial collar - WTI	500 BBL/day	Jul 1, 2024	to	Dec 31, 2024	65.00	to	85.30	USD/BBL
Gas	Financial collar - AECO Monthly	5,000 GJ/day	Jan 1, 2024	to	Mar 31, 2024	2.75	to	3.56	CAD/GJ
Gas	Financial collar - AECO Monthly	5,000 GJ/day	Apr 1, 2024	to	Jun 30, 2024	2.25	to	2.71	CAD/GJ
Gas	Fixed Price - AECO Monthly	5,000 GJ/day	Jul 1, 2024	to	Dec 31, 2024	-		2.10	CAD/GJ
Gas	Fixed Price - AECO Daily	5,000 GJ/day	Jul 1, 2024	to	Dec 31, 2024	-		2.04	CAD/GJ

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 December 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, $76,000,000 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 $580,000.

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.

18. 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	37,226	-	-	-	37,226
Bank debt	Yes - Liability	-	14,822	-	-	14,822
Subordinated debentures[1]	Yes - Liability	-	59,000	-	-	59,000
Subordinated term debt[1]	Yes - Liability	19,000	57,000		-	76,000
Future interest	No	14,063	14,297	-	-	28,360
Firm service commitments	No	1,140	1,824	909	189	4,062
Office lease commitments	No	472	961	-	-	1,433
Total		71,901	147,904	909	189	220,903

[1] Principal amount.

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

The Company also has non-cancellable office lease commitments for building and office equipment. The building and office equipment leases have an average remaining life of 2.9 years.

19. 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 (December 31, 2022 - $3,675,000). The benefit of the in-kind grant is recognized through other income.

20. SUBSEQUENT EVENTS

Asset Acquisition

On March 1, 2024, Bonterra closed an acquisition to purchase producing petroleum and natural gas assets in northern Alberta, for cash consideration of approximately $24.1 million before estimated closing adjustments. The assets acquired currently produce 330 BOE per day and provide a portfolio of high-quality future drilling locations and reserves, establishing a new core operating area for the Company.

CORPORATE INFORMATION

Board of Directors

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

Officers

Patrick G. Oliver, President and CEO
Robb D. Thompson, CFO and Corporate Secretary
Steve Ewens, VP Engineering
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

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