Bonterra Energy Corp. **Q1** For the Three Months ended March 31, 2014

TSX: **BNE**
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BONTERRA ENERGY REPORTS FIRST QUARTER 2014 FINANCIAL AND OPERATING RESULTS

HIGHLIGHTS

As at and for the three month periods ended ($ 000s except $ per share)		**March 31, 2014**	December 31, 2013	March 31, 2013 [1]
FINANCIAL				
Revenue – realized oil and gas sales		**82,521**	70,917	66,468
Funds flow[4]		**54,414**	43,359	40,726
Per share – basic		**1.73**	1.39	1.47
Per share – diluted		**1.72**	1.38	1.46
Payout ratio		**50%**	61%	53%
Cash flow from operations		**49,094**	47,772	40,726
Per share – basic		**1.56**	1.53	1.47
Per share – diluted		**1.55**	1.52	1.46
Payout ratio		**56%**	56%	53%
Cash dividends per share		**0.87**	0.85	0.80
Net earnings		**23,041**	15,254	12,695
Per share – basic		**0.73**	0.50	0.46
Per share – diluted		**0.73**	0.49	0.46
Capital expenditures and acquisitions, net of dispositions		**54,236**	25,965	39,506 [2]
Total assets		**1,043,822**	1,000,531	1,016,594
Working capital deficiency		**62,488**	35,895	31,519
Long-term debt		**143,103**	156,764	189,509
Shareholders' equity		**678,224**	667,641	658,062
OPERATIONS				
Oil	- barrels per day	**7,567**	7,964	7,459
	- average price ($ per barrel)	**96.53**	80.88	84.20
NGLs	- barrels per day	**721**	691	732
	- average price ($ per barrel)	**67.81**	56.48	53.75
Natural gas	- MCF per day	**22,307**	22,802	22,176
	- average price ($ per MCF)	**6.16**	3.85	3.21
Total barrels of oil equivalent per day (BOE)[3]		**12,006**	12,456	11,887

(1) Quarterly figures for Q1 2013 include the results of Spartan Oil Corp. (Spartan) for the period of January 25, 2013 to March 31, 2013. Production includes 65 days for Spartan and 90 days for Bonterra.

(2) Includes the Spartan acquisition that closed on January 25, 2013 that included $10,000,000 of acquired cash that reduced capital expenditures from $49,506,000.

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

(4) 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.

REPORT TO SHAREHOLDERS

Bonterra Energy Corp. (Bonterra or the Company) is pleased to announce its financial and operational results for the three months ended March 31, 2014. It has been a very good quarter and the Company is well positioned to carry this momentum into the second quarter and the remainder of 2014.

Financial and Operational Highlights
Bonterra has maintained its focus on providing investors with continued growth on a per share basis, a sustainable pace of development, and consistent income through its dividend policy. For the three month period, the Company achieved record results in revenue, funds flow and net earnings. The daily average production of 12,006 BOE per day for Q1 2014 was less than the 2014 average annual guidance range of 12,400 to 12,700 BOE per day. Production was below quarterly expectations due to extremely cold weather that delayed expected production of several wells and pipeline delivery operations. Exit production for the quarter was 13,100 BOE per day. The Company is confident that it will meet or exceed its 2014 production guidance.

Highlights include:

- Generated record funds flow of $54.4 million ($1.73 per share) in Q1 2014 compared to $40.7 million ($1.47 per share) in Q1 2013 and $43.4 million ($1.39 per share) in Q4 2013
- Average Canadian dollar realized commodity prices were: crude oil $96.53 per barrel; natural gas liquids $67.81 per barrel and natural gas $6.16 per mcf
- Corporate netbacks per barrel of oil equivalent (BOE) were: $50.37 in Q1 2014; $37.76 in Q1 2013 and $37.84 in Q4 2013
- Sensitivity Analysis:

Impact of actual netback of $50.37 compared to budget of $40.96	$10.2 Million
Impact of lower production of 400 BOE's per day	($1.8 million)
Increased Corporate funds flow for Q1 2014	$9.4 million

- The Company received $12.9 million cash in Q1 2014 from the exercising of employee stock options
- Percentage of funds flow that has been paid in dividends: Q1 2014 – 50 percent; Q1 2013 – 53 percent; Q4 2013 – 61 percent
- Quarterly cash dividends paid per share: Q1 2014 - $0.87; Q1 2013 - $0.80; Q4 2013 - $0.85
- Total debt (includes working capital) ratio to funds flow: 0.95 to 1
- Operating costs ($/boe) (excluding a non-recurring item): Q1 2014 - $12.89; Q1 2013 - $12.92; Q4 2013 - $12.11

Carnwood Update
As previously advised, Bonterra's activities over the next few years will be directed towards the development of the Carnwood area in the Pembina Cardium field. It is projected that more than 50 percent of the annual wells drilled by Bonterra in the next few years will be in the Carnwood area. The reason for this focus is the large amount of original oil in place in most of the 35 net sections and less than 7 percent having been produced. Bonterra has a risked inventory of 210 locations and is projecting to drill approximately 30 net wells per year (2/3 of total net wells drilled) in the Carnwood area; providing 7 years of drilling inventory. To date we have drilled approximately 17.6 net horizontal wells in Carnwood with results as expected.

The Company is pleased with the results to date and is optimistic the Carnwood area will continue to make a substantial contribution to production, the Company rate of return, funds flow and monthly dividends that will be paid in the future.

Outlook
The first quarter of 2014 was a very active and productive period for Bonterra. It also was one of the coldest winters on record for the oil and gas industry that led to reduced production from existing wells and delayed completion and tie-ins of new wells. These issues resulted in reduced and shut-in production in the first quarter. All of the wells that were drilled in Q1 are now on production leading to higher production volumes in Q2. Total production during the last week of April averaged approximately 13,750 BOE's per day. Four more wells commenced production on May 1, 2014 and an additional four wells should be on production by May 31, 2014.

During the balance of 2014 the Company will:

- For the first time plan to continually drill and complete wells throughout break-up;
- Initiate the injection of water as part of the Carnwood waterflood pilot and continue to evaluate a gas flood pilot for 2015; and
- Continue to make drilling, completion and operating improvements to increase overall Corporate rates of return.

If production volumes and funds flow continue to increase the Board and Management will give consideration to increasing the dividend, increasing capital expenditures or reducing the debt or a combination of these options. The Board and Management will continue to monitor the best combination of options to increase shareholder value over the long term.

General
The Board of Directors wish to take this opportunity to thank the staff and consultants for the extra effort that was provided by them during the past months. It has been necessary for a lot of you to put in extra time and effort. The Board recognizes that the Company has a very good team of devoted and caring individuals.

GFink

George F. Fink
Chief Executive Officer and Chairman of the Board

Management's Discussion and Analysis

The following report dated May 14, 2014 is a review of the operations and current financial position for the three months ended March 31, 2014 for Bonterra Energy Corp. (Bonterra or the Company) and should be read in conjunction with the unaudited condensed consolidated financial statements and the audited financial statements including the notes related thereto for the fiscal year ended December 31, 2013 presented under International Financial Reporting Standards (IFRS).

Use of Non-IFRS Financial Measures

Throughout this Management's Discussion and Analysis (MD&A) the Company uses the terms "payout ratio", "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 companies.

The Company calculates payout ratio by dividing cash dividends paid to shareholders by cash flow from operating activities, both of which are measures prescribed by IFRS which appear on our statements of cash flows. We calculate cash netback by dividing various financial statement items as determined by IFRS by total production for the period on a barrel of oil equivalent basis.

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" refers to the mixed sweet blend that is the benchmark price for conventionally produced light sweet crude oil in Western Canada; "bbl" refers to barrel; "NGL" refers to Natural gas liquids; "MCF" refers to thousand cubic feet; "MMBTU" refers to million British Thermal Units; and "BOE" refers to barrels of oil equivalent. Disclosure provided herein in respect of a BOE may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 MCF: 1 bbl is based on an energy conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Numerical Amounts

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

Quarterly Comparisons

	2014	2013			
As at and for the periods ended ($ 000s except $ per share)	Q1	Q4	Q3	Q2	Q1 [1]
Financial					
Revenue – oil and gas sales	**82,521**	70,917	78,946	79,344	66,468
Cash flow from operations	**49,094**	47,772	43,953	41,445	40,726
Per share – basic	**1.56**	1.53	1.41	1.35	1.47
Per share – diluted	**1.55**	1.52	1.40	1.35	1.46
Payout ratio	**56%**	56%	60%	62%	53%
Cash dividends per share	**0.87**	0.85	0.84	0.84	0.80
Net earnings	**23,041**	15,254	19,690	15,119	12,695
Per share – basic	**0.73**	0.50	0.63	0.49	0.46
Per share – diluted	**0.73**	0.49	0.63	0.49	0.46
Capital expenditures and acquisitions, net of dispositions	**54,236**	25,965	34,025	9,731	39,506 [2]
Total assets	**1,043,822**	1,000,531	1,002,773	987,067	1,016,594
Working capital deficiency	**62,488**	35,895	43,681	26,824	31,519
Long-term debt	**143,103**	156,764	147,189	179,379	189,509
Shareholders' equity	**678,224**	667,641	671,528	648,574	658,062
Operations					
Oil (barrels per day)	**7,567**	7,964	7,310	8,414	7,459
NGLs (barrels per day)	**721**	691	772	782	732
Natural gas (MCF per day)	**22,307**	22,802	22,274	20,554	22,176
Total BOE per day	**12,006**	12,456	11,794	12,621	11,887

(1) Quarterly figures for Q1 2013 include the results of Spartan Oil Corp. (Spartan), for the period of January 25, 2013 to March 31, 2013. Production includes 65 days for Spartan and 90 days for Bonterra.

(2) Includes the Spartan acquisition that closed on January 25, 2013 that included $10,000,000 of acquired cash that reduced capital expenditures from $49,506,000.

As at and for the periods ended ($ 000s except $ per share)	2012 Q4	2012 Q3	2012 Q2	2012 Q1
Financial				
Revenue – oil and gas sales	39,624	35,204	31,049	36,893
Cash flow from operations	21,460	16,440	14,727	21,698
Per share – basic	1.08	0.83	0.74	1.10
Per share – diluted	1.08	0.83	0.74	1.10
Payout ratio	72%	94%	105%	71%
Cash dividends per share	0.78	0.78	0.78	0.78
Net earnings	6,082	7,746	9,201	10,182
Per share – basic	0.31	0.39	0.47	0.52
Per share – diluted	0.31	0.39	0.46	0.51
Capital expenditures and acquisitions, net of disposals	24,069	27,360	25,288 (3)	21,413
Total assets	419,933	412,812	393,772	371,757
Working capital deficiency	29,876	49,808	42,082	57,889
Long-term debt	166,808	128,779	114,747	75,543
Shareholders' equity	163,277	169,839	176,292	181,008
Operations				
Oil (barrels per day)	4,400	4,108	3,650	3,975
NGLs (barrels per day)	595	461	428	419
Natural gas (MCF per day)	16,009	12,583	11,753	12,260
Total BOE per day	7,663	6,666	6,037	6,438

(3) Includes an asset acquisition that closed on June 7, 2012 for $17,108,000.

Business Environment and Sensitivities

Bonterra's financial results are significantly influenced by fluctuations in commodity prices, including price differentials. The following table depicts selective market benchmark prices and foreign exchange rates in the last eight quarters to assist in understanding volatility in prices and foreign exchange rates that have impacted Bonterra's financial and operating performance. The increases or decreases for Bonterra's realized price for oil and natural gas for each of the eight quarters is explained in detail in the following table.

	Q1-2014	Q4-2013	Q3-2013	Q2-2013	Q1-2013	Q4 -2012	Q3 -2012	Q2 -2012
Crude oil								
WTI (U.S.$/bbl)	**98.68**	97.44	105.82	94.22	94.37	88.18	92.22	93.49
WTI to MSW Stream Index Differential (U.S.$/bbl)(1)	**(8.25)**	(14.93)	(4.72)	(3.67)	(6.95)	(3.32)	(7.21)	(10.12)
Foreign exchange								
Cdn$/U.S.$	**1.1035**	1.0498	1.0385	1.0234	1.0089	0.9913	0.9948	1.0102
Bonterra average realized price (Cdn$/bbl)	**96.53**	80.88	103.30	89.38	84.20	78.58	80.54	80.93
Natural gas								
AECO (Cdn$/mcf)	**5.69**	3.52	2.43	3.52	3.18	3.20	2.31	1.89
Bonterra average realized price (Cdn$/mcf)	**6.16**	3.85	2.71	4.13	3.21	3.43	2.41	1.96

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

The overall volatility in Bonterra's average realized commodity pricing is dependent on numerous events, some of which are:

- Increased North American production and not having sufficient takeaway capacity; pipeline and rail capacity is unable to sufficiently handle the increasing production levels
- Weather dependence; the 2013/2014 winter was one of the coldest on record
- Plant and refinery turnarounds
- The reduced value of the Canadian dollar compared to the U.S. dollar which positively effects Bonterra's realized prices
- Natural gas storage levels being much lower than any other time during the past five years

It is difficult to predict future pricing, but the Company expects oil and gas prices to remain volatile for the remainder of 2014 and 2015.

The following chart shows the Company's sensitivity to key commodity price variables. The sensitivity calculations are performed independently showing the effect of the change of one variable; with all other variables being held constant.

Annualized sensitivity analysis on cash flow, as estimated for 2014[1]

Impact on cash flow	Change ($)	$000s	$ per share[2]
Realized crude oil price ($/bbl)	1.00	2,528	0.08
Realized natural gas price ($/mcf)	0.10	786	0.02
Canadian $/ U.S. $ exchange rate	0.01	2,149	0.07

(1) This analysis uses current royalty rates, annualized estimated average production of 12,500 BOE per day and no changes in working capital
(2) Based on annualized basic weighted average shares outstanding of 31,809,117

Business Overview, Strategy and Key Performance Drivers

Bonterra spent $55,236,000 on its capital program, which is approximately 45 percent of the Company's anticipated capital program for 2014 primarily on 23 gross (17.2 net) wells. Currently, 37 gross (36.3 net) operated wells and 19 gross (4.7 net) non-operated horizontal wells are planned for 2014, of which 26 gross (25.5 net) wells will be drilled in the Carnwood area. Remaining capital will be directed to facilities, pipelines and other areas within Bonterra's Cardium land base.

Bonterra continues to focus on improving capital efficiencies through reducing drilling times, optimizing completion techniques and concentrated field development through multi well pad drilling ("pad development"). The Company's spud to rig release average for mile long lateral horizontal wells averaged six days, and for mile and a half wells eight days versus prior years averages of 15 to 20 days. The Company has converted all completions to cased-hole versus open-hole packers which allows for pinpoint frac placement which should increase overall recoveries. Concentrated pad drilling improves overall efficiencies by reducing required equipment mobilization and demobilization, thereby reducing the number of leases and the number of days required to bring on production. Pad development also leads to reduced production costs on a BOE basis. The increased production from the multi well pads will reduce fixed costs such as property taxes, labour and other general lease costs on a BOE basis.

As the Company's operations continue to grow, Bonterra maintains its focus on ensuring it has the necessary infrastructure in place to accommodate new production. The Company has already increased its battery treating capacity in the Carnwood area to 5,000 barrels of oil per day. In addition in April 2014 the Company reactivated a wholly owned gas plant in the Keystone area. This gas plant is expected to reduce operating costs and increase gas handling capacity as it will allow the Company to redirect gas production from the Carnwood area to this plant.

The Company experienced significant shut-in issues due to pipeline constraints, facility turnarounds and extremely cold weather in the first quarter which caused an estimated 400 BOE per day of production to be shut in or stored in field storage. The cold weather also delayed tying in the majority of the new production until mid to late March.

The Company has scheduled six (5.9 net) drill locations to maintain its capital drilling program through Q2 2014. This activity or other capital activities are not usually possible in the second quarter because of spring break-up road bans that temporarily prevents the Company from continuing its capital development program. The drill locations selected for Q2 2014 are where existing road and facility infrastructure is in place allowing the Company to bring on production during this usual period of capital development inactivity.

With the remaining 2014 drilling program and the March 31, 2014 exit rate of 13,100 BOE per day the Company is on track to reach its annual average production guidance of 12,400 to 12,700 BOE per day.

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

Drilling

	Three months ended					
		March 31, 2014		December 31, 2013		March 31, 2013
	Gross[(1)]	**Net[(2)]**	Gross[(1)]	Net[(2)]	Gross[(1)]	Net[(2)]
Crude oil horizontal-operated	**15**	**14.9**	6	5.9	15	14.8
Crude oil horizontal-non-operated	**8**	**2.3**	13	2.6	2	0.3
Total	**23**	**17.2**	19	8.5	17	15.1
Success rate		**100%**		100%		100%

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

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

During the first quarter of 2014, the Company placed four gross (3.9 net) wells on production that were drilled in the later part of 2013, drilled 15 gross (14.9 net) wells, of which 13 gross (12.9 net) were placed on production. The unseasonably cold weather caused 10 of the 13 gross wells to be placed on production in mid to late March. The Company expects to tie-in the remaining two wells in the second quarter.

Eight gross (2.3 net) non-operated wells were drilled and all but two (0.7 net) were placed on production during the first quarter of 2014.

Production

	Three months ended		
	March 31, 2014	December 31, 2013	March 31, 2013
Crude oil (barrels per day)	**7,567**	7,964	7,459
NGLs (barrels per day)	**721**	691	732
Natural gas (MCF per day)	**22,307**	22,802	22,176
Average BOE per day [(1)]	**12,006**	12,456	11,887

(1) In Q1 2013, average daily production included 90 days of Bonterra production and 65 days of Spartan production.

Production volumes during Q1 2014 increased to 12,006 BOE per day compared to 11,887 BOE per day during the same period in 2013. Quarter over quarter, production volumes decreased by 450 BOE per day. Not unlike other oil and gas producers in Western Canada, the impact of downstream pipeline shipping constraints (such as the pipeline integrity issues), facility turnarounds and unseasonably cold weather caused Bonterra to experience significant shut-in production and an increase in crude oil field storage during the first quarter of 2014. The cold weather also contributed to delays in the Company's 2014 drilling program, as most of the new wells produced for less than one month as they were tied-in late in the quarter. It is estimated that 400 BOE per day of production was shut in or in field storage due to the issues noted above.

Cash Netback

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

	Three months ended		
$ per BOE	**March 31, 2014**	December 31, 2013	March 31, 2013
Production volumes (BOE)	**1,080,575**	1,145,918	1,069,798
Gross production revenue [1]	**$76.37**	$61.89	$62.13
Royalties	**(8.76)**	(7.97)	(6.36)
Field operating costs	**(13.90)**	(12.11)	(12.92)
Field netback	**$53.71**	$41.81	$42.85
General and administrative	**(2.28)**	(1.85)	(3.25)
Interest and other	**(1.06)**	(2.12)	(1.84)
Cash netback	**$50.37**	$37.84	$37.76

[1] For the first quarter of 2014 the WTI to MSW Stream Index Differential was $8.25 (U.S. $/bbl) compared to $14.93 (U.S. $/bbl) for the fourth quarter of 2013

Cash Netbacks have increased in Q1 2014 compared to Q4 2013 and Q1 2013 primarily due to increased commodity prices.

Oil and Gas sales

	Three months ended		
($ 000s)	**March 31, 2014**	December 31, 2013	March 31, 2013
Revenue – oil and gas sales	**82,521**	70,917	66,468
Average Realized Prices ($):			
Crude oil (per barrel)	**96.53**	80.88	84.20
NGLs (per barrel)	**67.81**	56.48	53.75
Natural gas (per MCF)	**6.16**	3.85	3.21
Average (per BOE)	**76.37**	61.89	62.13

Revenue from oil and gas sales increased by $16,053,000 in 2014 or 24 percent compared to Q1 2013. This increase was primarily due to a 23 percent increase in commodity prices.

The quarter over quarter increase in oil and gas revenues of 16 percent or $11,604,000, was due to increased commodity prices. This increase was partially offset by a 4 percent decrease in production.

The Company's product split on a revenue basis for 2014 is approximately 85 percent weighted towards crude oil and NGLs. This ratio will likely remain similar or increase as the Company continues to develop its Cardium (mainly oil) properties.

Royalties

($ 000s)	Three months ended **March 31, 2014**	December 31, 2013	March 31, 2013
Crown royalties	**5,233**	4,546	3,984
Freehold, gross overriding and other royalties	**4,233**	4,583	2,820
Total royalties	**9,466**	9,129	6,804
Crown royalties - percentage of revenue	**6.3**	6.4	6.0
Freehold, gross overriding and other royalties - percentage of revenue	**5.1**	6.5	4.2
Royalties – percentage of revenue	**11.4**	12.9	10.2
Royalties $ per BOE	**8.76**	7.97	6.36

Royalties paid by the Company consist of Crown royalties paid to the Provinces of Alberta, Saskatchewan and British Columbia. The Company's average Crown royalty rate is approximately 6.3 percent for 2014 compared to 6.0 percent for the comparable period in 2013. The crown royalty rate increase was due primarily to Alberta crown royalties on crude oil prices, which is calculated from the Alberta Crown Reference price, which increased 11 percent from Q1 2013. This increase was partially offset by the new crown wells that were placed on production in the second half of 2013 that are eligible for the initial five percent royalty rates.

Non-crown royalties increased for Q1 2014 compared to Q1 2013 primarily due to a full quarter of additional oil and gas revenue from wells subject to non-crown royalties from the Spartan acquisition and recent non-operated wells drilled in the Tomahawk area in the second half of 2013. The percent decrease in non-crown royalties' quarter over quarter is primarily due to Q1 2014 and Q4 2013 wells drilled were mostly on crown lands rather than freehold lands.

Production Costs

($ 000s except $ per BOE)	Three months ended **March 31, 2014**	December 31, 2013	March 31, 2013
Production costs (recurring)	**13,925**	13,877	13,826
Production costs (non-recurring)(1)	**1,100**	-	-
Total Production costs	**15,025**	13,877	13,826
$ per BOE (recurring)	**12.89**	12.11	12.92
$ per BOE (total)	**13.90**	12.11	12.92

(1) Non-recurring production costs relate primarily to a one-time freehold mineral tax re-assessment in the Keystone area

Total production costs for Q1 2014 increased 9 percent from the comparable period in 2013. Recorded in the first quarter of 2014 was a $1,100,000 adjustment relating to a 2013 freehold mineral tax re-assessment in the Keystone area. Removing the one time re-assessment adjustment the production costs were $12.89 per BOE which is comparable to Q1 2013.

The increase quarter over quarter (after removing the re-assessment) is primarily due to cold weather and pipeline constraints which lead to shut in production or having to truck oil to field storage or sales terminals with no apportionments. In addition, the Company experienced increased chemical and facility maintenance costs due to hydrate issues and increased power costs due to higher natural gas prices.

In April 2014, the Company also reactivated a second wholly owned gas plant which will alleviate a portion of the existing gas processing and transportation issues. This gas plant reactivation will provide the required gas processing capacity to accommodate the increased production from the Carnwood area. Using wholly owned gas plant facilities will also lower gas processing and transportation costs in subsequent periods.

In addition, the Company is currently using multi well pad sites with its horizontal drilling program in the Carnwood area. Shared site costs, increased facility capacity and accessible existing infrastructure should reduce future production costs on a BOE basis.

Other Income

	Three months ended		
($ 000s)	**March 31, 2014**	December 31, 2013	March 31, 2013
Investment income	**18**	18	35
Administrative income	**191**	117	53
Gain on sale of property	**581**	-	-
Realized gain on investments	**-**	-	115
	790	135	203

In January 2014, the Company sold a portion of its undeveloped land in the Willesden Green area for cash proceeds of $1,000,000. At the time of disposition, the Company had a carrying value of $419,000 for exploration and evaluation expenditures, resulting in a gain on sale of $581,000.

The market value of the investments held by the Company is $8,821,000 at March 31, 2014 (December 31, 2013 - $6,804,000). The increase in carrying value is mainly due to increased market value in the investments held.

The Company receives administrative income by way of management fees from related parties (see related party transactions).

General and Administration (G&A) Expense

	Three months ended		
($ 000s except $ per BOE)	**March 31, 2014**	December 31, 2013	March 31, 2013
Employee compensation expense	**1,930**	1,403	1,387
Office and administration expense (recurring)	**537**	719	1,103
	2,467	2,122	2,490
Office and administration expense (non-recurring)[1]	**-**	-	992
Total G&A expense	**2,467**	2,122	3,482
$ per BOE (recurring)	**2.28**	1.85	2.33
$ per BOE (total)	**2.28**	1.85	3.25

[1] Non-recurring office and administration costs relates to the acquisition of Spartan.

Total G&A expense decreased to $2,467,000 for the three months ended March 31, 2014 from $3,482,000 for the comparable period in 2013.

The increase in employee compensation expense of $543,000 for Q1 2014 compared to Q1 2013 (and $527,000 Q1 2014 compared to Q4 2013) is primarily due to an increase in accrued bonuses that resulted from higher net earnings before income taxes. The Company has a bonus plan in which the bonus pool consists of three percent of earnings before income taxes. The Company firmly believes that tying employee compensation (including the use of stock options) to the performance of the Company clearly aligns the interest of the employees with that of the shareholders.

The decrease in recurring office and administration expense for Q1 2014 compared to Q1 2013, related to decreased computer software costs, professional fees and the allowance for doubtful accounts. The decrease quarter over quarter relates primarily to decreased professional fees, computer software costs, insurance and the allowance for doubtful accounts.

Finance Costs

	Three months ended		
($ 000s except $ per BOE)	**March 31, 2014**	December 31, 2013	March 31, 2013
Interest on long-term debt	**1,016**	1,332	1,603
Other interest	**342**	261	181
Interest expense	**1,358**	1,593	1,784
$ per BOE	**1.26**	1.39	1.67
Unwinding of the discounted value of decommissioning liabilities	**280**	284	242
Total finance costs	**1,638**	1,877	2,026

Interest on long-term debt decreased $587,000 in 2014 compared to the same period in 2013 as the Company decreased the bank debt by $46,406,000 from the end of the first quarter of 2013. The decrease in bank debt was due to increased cash flow and an equity issue in the third quarter of 2013. The Company also experienced lower interest rates on its credit facilities in the first quarter of 2014 and the fourth quarter of 2013. Interest rates are determined by net debt to cash flow ratios on a trailing quarterly basis.

Other interest relates to amounts paid to related parties (see related party transactions) and a $40,000,000 subordinated promissory note from a private investor.

A one percent increase (decrease) in the Canadian prime rate would decrease (increase) both annual net earnings and comprehensive income by approximately $1,160,000.

Share-based Payments

	Three months ended		
($ 000s)	**March 31, 2014**	December 31, 2013	March 31, 2013
	318	773	1,192

Share-based payments are 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 employees, directors and consultants.

Share-based payments decreased by $874,000 from a year ago due to 1,350,500 options issued prior to Q1 2013 that were fully amortized prior to Q1 2014.

Based on current outstanding options, the Company anticipates that an expense of approximately $1,539,000 will be recorded for the remainder of 2014, $483,000 for 2015, $64,000 for 2016 and $5,000 for 2017. For more information about options issued and outstanding, refer to Note 10 of the March 31, 2014 condensed financial statements.

Depletion and Depreciation, Exploration and Evaluation and Goodwill

	Three months ended		
	March 31,	December 31,	March 31,
($ 000s)	**2014**	2013	2013
Depletion and depreciation	**23,815**	24,707	19,561
Exploration and evaluation expense	**24**	489	276

Provision for depletion and depreciation increased by $4,254,000 over Q1 2013. The increase in depletion and depreciation was mainly the result of higher production volumes and property, plant and equipment costs for a full quarter this year compared to last year as the Spartan acquisition closed January 25, 2013. The decrease for depletion and depreciation by $892,000 from Q1 2014 from Q4 2013 was due to a decrease in production volumes.

Exploration and evaluation expense related to expired leases.

There were no impairment provisions recorded for the three month period ended March 31, 2014 and March 31, 2013.

Taxes

The Company recorded a deferred tax expense of $7,517,000 for Q1 2014 (March 31, 2013 - $6,516,000). The deferred tax expense increase in Q1 2014 compared to Q1 2013 is primarily related to increased earnings before income taxes.

On November 14, 2013, the Company received a proposal letter from the Canada Revenue agency (CRA) which stated its intention to challenge the tax consequences of Bonterra's reorganization from a trust to a Corporation, which occurred on November 18, 2008. The CRA position is based on the acquisition and control rules in addition to the general anti-tax avoidance rules in the Income Tax Act. In 2014, if CRA issues a Notice of Reassessment for Bonterra's 2008 and subsequent taxation periods, Bonterra would be required to make a payment of 50% the tax liability claimed by the CRA in order to appeal this reassessment. If such reassessments are issued and maintained on appeal, Bonterra will owe total cash taxes of approximately $41 million and have to pay approximately 50% or $20.5 million for the taxation years since the conversion including the first three months of 2014. Bonterra would have 90 days from the Notice of Reassessment to prepare and file a Notice of Objection. If the CRA is not in agreement with Bonterra's Notice of Objection, Bonterra has the option to file its case with the Tax Court of Canada. Bonterra anticipates that legal proceedings through various tax courts would take approximately 2 to 4 years. If Bonterra receives a positive ruling, then any taxes, interest and penalties paid to the CRA will be refunded plus interest. If Bonterra is unsuccessful then any remaining taxes payable plus interest and penalties will be remitted.

The impact of the proposal on Bonterra's tax provision has been considered by management; however management remains of the opinion, that after careful consideration and consultation at the time of the conversion, Bonterra's subsequent tax filings were correct as filed.

If the proposed reassessments are filed, management will vigorously defend Bonterra's tax filing position.

For additional information regarding income taxes, see Note 9 of the March 31, 2014 condensed financial statements.

Net Earnings

	Three months ended		
($ 000s except $ per share)	**March 31, 2014**	December 31, 2013	March 31, 2013
Net earnings	**23,041**	15,254	12,695
$ per share – basic	**0.73**	0.50	0.46
$ per share – diluted	**0.73**	0.49	0.46

Net earnings increased in 2014 by $10,346,000 or 81 percent from the comparable period of 2013. Increased net earnings resulted primarily from increased oil and gas sales. This increase was partially offset by an increase in depletion and depreciation, deferred tax expense and production costs.

The increase in net earnings for Q1 2014 compared to Q4 2013 resulted from increased revenue from oil and gas sales due to higher commodity prices, partially offset by an increase in deferred tax expense.

Other Comprehensive Income

Other comprehensive income for 2014 consists of an unrealized gain before tax on investments (including investment in a related party) of $2,017,000 relating to an increase in the investments' fair value (March 31, 2013 – unrealized gain of $518,000). Realized gains decrease other comprehensive income as these gains are transferred to net earnings. Other comprehensive income varies from net earnings by unrealized changes in the fair value of Bonterra's holdings of investments including the investment in related party, net of tax.

Cash Flow from Operations

	Three months ended		
($ 000s except $ per share)	**March 31, 2014**	December 31, 2013	March 31, 2013
Cash flow from operations	**49,094**	47,772	40,726
$ per share – basic	**1.56**	1.53	1.47
$ per share – diluted	**1.55**	1.52	1.46

In 2014, cash flow from operations increased by $8,368,000 compared to the same period a year ago. This was primarily due to increased commodity prices that resulted in higher field netbacks, which were partially offset by a decrease in the change in non-cash working capital. The quarter over quarter increase of $1,322,000, was due primarily to an increase in the average realized commodity price, partially offset by an increase in royalties and production costs.

Related Party Transactions

Bonterra holds 1,034,523 (December 31, 2013 – 1,034,523) common shares in Pine Cliff which represents less than one percent ownership in Pine Cliff's outstanding common shares. Pine Cliff's common shares have a fair market value as of March 31, 2014 of $1,624,000 (December 31, 2013 - $1,076,000). Pine Cliff paid a management fee to the Company of $15,000 (March 31, 2013 - $15,000). Services provided by the Company include executive services, accounting services, oil and gas administration and office administration. All services performed are charged at estimated fair value. As at March 31, 2014, the Company had an account receivable from Pine Cliff of $203,000 (December 31, 2013 – $217,000).

As at March 31, 2014, the Company's CEO, Chairman of the Board and major shareholder has loaned the Company $12,000,000 (December 31, 2013 - $12,000,000). The loan bears interest at Canadian chartered bank prime less 5/8th of a percent and has no set repayment terms but is payable on demand. Security under the debenture is over all of the Company's assets and is subordinated to any and all claims in favour of the syndicate of senior lenders providing credit facilities to the Company. The loan can only be repaid should the Company have sufficient available borrowing limits under the Company's credit facility. Interest paid on this loan for the first three months of 2014 was $70,000 (March 31, 2013 - $70,000). This loan results in a substantial benefit to Bonterra as the interest paid to the CEO by Bonterra is lower than bank interest.

Liquidity and Capital Resources

Net Debt to Cash Flow

Bonterra continues to focus on managing its cash flow, capital expenditures and dividend payments. The Company continues to meet its annual guidance range of 1 to 1 times to 1.5 to 1 times net debt to cash flow ratio with a ratio of 1.05 to 1 times. The Company anticipates with its low net debt to cash flow ratio and continued successful drilling program, this will allow the Company to sustain future cash flows and shareholder dividends.

Working Capital Deficiency

($ 000s)	**March 31, 2014**	December 31, 2013	March 31, 2013
Working capital deficiency	**62,488**	35,895	31,519
Long-term bank debt	**143,103**	156,764	189,509
Net debt	**205,591**	192,659	221,028
Shareholders' equity	**678,224**	667,641	658,062
Total	**883,815**	860,300	879,090

Net Debt and Working Capital

Net debt is a combination of long-term bank debt and working capital. Net debt remained relatively unchanged from a year ago. This was primarily attributable to the Company's increased cash flow, stock option proceeds and an equity raise in the third quarter of 2013, offset by increased capital spending, while at the same time increasing the dividends paid to shareholders on a per share basis commencing in December 2013.

The increase in net debt quarter over quarter is primarily due to increased capital spending, as the Company commenced its 2014 capital drilling program. This increase was partially offset by an increase in stock option proceeds and increased cash flow from operations due to higher field netbacks from increased commodity prices.

Working capital is calculated as current liabilities less current assets. The Company finances its working capital deficiency using cash flow from operations, its long-term bank facility, share issuances, option exercises and sale of non-core assets and investments.

Effective January 17, 2014, the Company increased its Subordinated Promissory Note by an additional $15,000,000, for a total of $40,000,000 under the same terms and conditions. See Note 7 of the March 31, 2014 condensed financial statements.

The Company has currently not entered into any financial derivative contracts.

Capital Expenditures

During the three month period ended March 31, 2014, the Company incurred capital costs of $54,236,000 (March 31, 2014 - $49,506,000) net of proceeds on disposal of property, plant and equipment. The costs relate primarily to the drilling of 15 gross (14.9 net) Cardium operated horizontal wells and eight (2.3 net) non-operated wells, a wholly owned gas plant reactivation, and upgrading facilities and gathering systems.

Long-term Debt

Long-term debt represents the outstanding draws from the Company's credit facilities as described in the notes to the Company's condensed financial statements. As of March 31, 2014, the Company has bank facilities consisting of a $220,000,000 (December 31, 2013 - $220,000,000) syndicated revolving credit facility and a $30,000,000 (December 31, 2013 - $30,000,000) non-syndicated revolving credit facility. Amounts drawn under these facilities at March 31, 2014 totaled $143,103,000 (December 31, 2013 - $156,764,000). The interest rates on the outstanding debt as of March 31, 2014 were 3.8 percent and 3.0 percent on the Company's Canadian prime rate loan and Banker's Acceptances, respectively. The loan is revolving to April 24, 2014 and with a maturity date of April 25, 2015 and is subject to annual review. The revolving credit facilities have no fixed terms of repayment. Effective April 24, 2014, the Company renewed its bank facility under similar terms and conditions with the exception of extending the revolving period to April 30, 2015 and the maturity date to April 30, 2016.

Advances drawn under the credit facilities are secured by a fixed and floating charge debenture over the assets of the Company. In the event the credit facilities are not extended or renewed, amounts drawn under the facility would be due and payable on the maturity date. The size of the committed credit facilities is based primarily on the value of the Company's producing petroleum and natural gas assets and related tangible assets as determined by the lenders. For more information see Note 8 of the March 31, 2014 condensed financial statements.

Shareholder's Equity

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

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.

Issued and fully paid – common shares	**Number**	**Amount ($ 000s)**
Balance, December 31, 2013	**31,322,171**	**685,898**
Issued pursuant to the Company's share option plan	273,500	12,889
Transfer from contributed surplus to share capital		1,184
Balance, March 31, 2014	**31,595,671**	**699,971**

The Company provides a stock option plan for its directors, officers, employees and consultants. Under the plan, the Company may grant options for up to 3,159,567 (December 31, 2013 – 3,132,217) 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 options outstanding, see Note 10 of the March 31, 2014 condensed financial statements.

Dividend Policy

For the three month period ended March 31, 2014, Bonterra paid dividends of $27,430,000 ($0.87 per share) compared to $21,712,000 ($0.80 per share) in the same period in 2013. Bonterra's dividend policy is regularly monitored and is dependent upon production, commodity prices, funds from operations, debt levels and capital expenditures. With its large inventory of undrilled locations, Bonterra continues to be well positioned to provide to its shareholders a combination of sustainable growth and meaningful dividend income.

Bonterra's dividends to its shareholders are funded by cash flow from operating activities with the remaining cash flow directed towards capital spending and, where applicable, the repayment of debt. To the extent that the excess cash flow from operations after dividends is not sufficient to cover capital spending, the shortfall is funded by funds from the exercising of employee stock options, the sale of investments and by draw downs from Bonterra's credit facilities. Bonterra intends to provide dividends to shareholders that are sustainable to the Company considering its liquidity and its long-term operational strategy. In addition, since the level of dividends is highly dependent upon cash flow generated from operations, which fluctuates significantly in relation to changes in financial and operational performance, commodity prices, interest and exchange rates and many other factors, future dividends cannot be assured. Bonterra's payout ratio based on cash flow from operations was 56 percent for the three months ended March 31, 2014 (53 percent for the three months ended March 31, 2013).

Quarterly Financial Information

	2014	2013			
For the periods ended ($ 000s except $ per share)	**Q1**	Q4	Q3	Q2	Q1
Revenue – oil and gas sales	**82,521**	70,917	78,946	79,344	66,468
Cash flow from operations	**49,094**	47,772	43,953	41,445	40,726
Net earnings	**23,041**	15,254	19,690	15,119	12,695
Per share – basic	**0.73**	0.50	0.63	0.49	0.46
Per share – diluted	**0.73**	0.49	0.63	0.49	0.46

	2012			
For the periods ended ($ 000s except $ per share)	Q4	Q3	Q2	Q1
Revenue – oil and gas sales	39,624	35,204	31,049	36,893
Cash flow from operations	21,460	16,440	14,727	21,698
Net earnings	6,082	7,746	9,201	10,182
Per share – basic	0.31	0.39	0.47	0.52
Per share – diluted	0.31	0.39	0.46	0.51

The fluctuations in the Company's revenue and net earnings from quarter to quarter are primarily caused by variations in production volumes, realized oil and natural gas pricing and the related impact on royalties. Q1 2013 and subsequent periods' revenue, cash flow and net earnings were higher than the prior quarters due to the Spartan acquisition and the Company's continued success with its capital drilling program.

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.

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: 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; and maintenance of existing customer, supplier and partner relationships; supply channels; accounting policies; credit risks; 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 are interpreted and enforced; the ability of oil and natural gas companies to raise capital; 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; 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 there from. 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 have been designed to ensure the information required to be disclosed by the Company is accumulated and communicated to the Company's Management, as appropriate, to allow timely decisions regarding required disclosures. The Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), together with management, have concluded, based on their evaluation as of the end of the period covered by the interim filing that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the issuer, is made known to them by others within the Company. It should be noted that while the Company's CEO and CFO believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objective of the control system is met.

Internal Control Update

The Company's CEO and CFO are responsible for establishing and maintaining Disclosure Controls and Procedures (DC&P) and adequate Internal Control over Financial Reporting (ICFR) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements as of the end of the period covered by the interim filing for external purposes in accordance with International Financial Reporting Standards. The control framework the Company used to design its ICFR was in accordance with the Committee of Sponsoring Organizations of the Treadway Commission (COSO 1992). The Company's CEO and CFO have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal control over financial reporting at the financial period end of the Company and concluded that the Company's internal control over financial reporting are effective for the foregoing purpose.

No changes were made to the Company's internal controls over financial reporting during the end of the period covered by the interim filing that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

All internal control systems, no matter how well designed, have inherent limitations. These systems, therefore, provide reasonable but not absolute assurance that financial information is accurate and complete.

Financial Reporting Update

As of January 1, 2014, the Company adopted several new IFRS interpretations and amendments in accordance with the transitional provisions of each standard. A brief description of each new accounting policy and its impact on the Company's financial statements are as follows:

IAS 36 "Impairment of Assets"

Has been amended to reduce the circumstances in which the recoverable amount of cash generating units "CGUs" is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in a period. The retrospective adoption of these amendments will only impact Bonterra's disclosures in the financial statements in periods when an impairment loss or impairment reversal is recognized.

IAS 39 “Financial Instruments: Recognition and Measurement”

Has been amended to clarify that there would be no requirement to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The retrospective adoption of the amendments does not have any impact on Bonterra’s financial statements.

IFRIC 21 “Levies”

Was developed by the IFRS Interpretations Committee (IFRIC) and is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 “Income Taxes”) and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. Lastly, the interpretation clarifies that a liability should not be recognized before the specified minimum threshold to trigger that levy is reached. The retrospective adoption of this interpretation does not have any impact on Bonterra’s financial statements.

Future Accounting Policy Changes

In February 2014, the International Accounting Standards Board (IASB) tentatively decided to require an entity to apply IFRS 9 "Financial Instruments" for annual periods beginning on or after January 1, 2018. IFRS 9 is still available for early adoption. The full impact of the standard on Bonterra's financial statements will not be known until changes are finalized.

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

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

CONDENSED STATEMENT OF FINANCIAL POSITION

As at (unaudited) ($ 000s)	Note	March 31, 2014	December 31, 2013
Assets			
Current			
Accounts receivable		**32,463**	27,247
Crude oil inventory		**1,637**	749
Prepaid expenses		**1,799**	1,642
Investments		**7,197**	5,728
		43,096	35,366
Investment in related party	3	**1,624**	1,076
Exploration and evaluation assets	4	**7,231**	7,674
Property, plant and equipment	5	**871,391**	835,935
Investment tax credit receivable		**27,670**	27,670
Goodwill		**92,810**	92,810
		1,043,822	1,000,531
Liabilities			
Current			
Accounts payable and accrued liabilities		**53,584**	34,261
Due to related party	6	**12,000**	12,000
Subordinated promissory note	7	**40,000**	25,000
		105,584	71,261
Bank debt	8	**143,103**	156,764
Decommissioning liabilities		**41,639**	37,362
Deferred tax liability	9	**75,272**	67,503
		365,598	332,890
Subsequent events	13		
Shareholders' equity			
Share capital	10	**699,971**	685,898
Contributed surplus		**11,925**	12,791
Accumulated other comprehensive income		**5,526**	3,761
Retained earnings (deficit)		**(39,198)**	(34,809)
		678,224	667,641
		1,043,822	1,000,531

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended March 31 (unaudited)

($ 000s, except $ per share)	Note	**2014**	2013
Revenue			
Oil and gas sales, net of royalties	11	**73,055**	59,663
Loss on risk management contract		**-**	(292)
Other income	12	**790**	203
		73,845	59,574
Expenses			
Production costs		**15,025**	13,826
Office and administration		**537**	2,095
Employee compensation		**1,930**	1,387
Finance costs		**1,638**	2,026
Share-based payments	10	**318**	1,192
Depletion and depreciation	5	**23,815**	19,561
Exploration and evaluation expenses	4	**24**	276
		43,287	40,363
Earnings before income taxes		**30,558**	19,211
Deferred income taxes		**7,517**	6,516
Net earnings for the period		**23,041**	12,695
Other comprehensive income			
Unrealized gains on investments		**2,017**	518
Deferred taxes on unrealized gains on investments		**(252)**	(65)
Realized gains on investments transferred to net earnings		**-**	(115)
Deferred taxes on realized gains on investments transferred to net earnings		**-**	14
Other comprehensive income for the period		**1,765**	352
Total comprehensive income for the period		**24,806**	13,047
Net earnings per share - basic	10	**0.73**	0.46
Net earnings per share – diluted	10	**0.73**	0.46
Comprehensive income per share - basic	10	**0.79**	0.47
Comprehensive income per share – diluted	10	**0.78**	0.47

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF CASH FLOW

For the three months ended March 31 (unaudited)

($ 000s)	Note	**2014**	**2013**
Operating activities			
Earnings before income taxes		**30,558**	19,211
Items not affecting cash			
Share-based payments		**318**	1,192
Depletion and depreciation		**23,815**	19,561
Exploration and evaluation expenses		**24**	276
Unrealized loss on risk management contract		**-**	17
Unwinding of the fair value of decommissioning liabilities		**280**	242
Gain on sale of property		**(581)**	-
Gain on sale of investments		**-**	(115)
Investment income		**(18)**	(35)
Interest expense		**1,358**	1,784
Change in non-cash working capital			
Change in accounts receivable		**(4,927)**	(2,777)
Change in crude oil inventory		**(519)**	78
Change in prepaid expenses		**(157)**	212
Change in accounts payable and accrued liabilities		**708**	3,042
Decommissioning expenditures		**(407)**	(178)
Interest paid		**(1,358)**	(1,784)
Cash provided by operating activities		**49,094**	40,726
Financing activities			
Increase (decrease) in bank debt		**(13,661)**	22,701
Subordinated promissory note		**15,000**	-
Stock option proceeds		**12,889**	-
Dividends		**(27,430)**	(21,712)
Cash provided by (used in) financing activities		**(13,202)**	989
Investing activities			
Investment income received		**18**	35
Property, plant and equipment expenditures		**(55,236)**	(49,506)
Proceeds on sale of property	4	**1,000**	-
Proceeds on sale of investments		**-**	391
Cash acquired on acquisition		**-**	10,000
Change in non-cash working capital			
Change in accounts payable and accrued liabilities		**18,615**	(343)
Change in accounts receivable		**(289)**	(2,292)
Cash used in investing activities		**(35,892)**	(41,715)
Net cash inflow		**-**	**-**
Cash, beginning of period		**-**	**-**
Cash, end of period		**-**	**-**

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF CHANGES IN EQUITY

For the periods ended (unaudited)

($ 000s, except number of shares outstanding)

	Number of shares outstanding (Note 10)	Share capital (Note 10)	Contributed surplus [1]	Accumulated other comprehensive income [2]	Retained earnings (deficit)	Total shareholders' equity
January 1, 2013	19,909,541	149,877	9,167	1,620	2,613	163,277
Share-based payments			1,192			1,192
Acquisition	10,711,405	502,258				502,258
Comprehensive income				352	12,695	13,047
Dividends					(21,712)	(21,712)
March 31, 2013	30,620,946	652,135	10,359	1,972	(6,404)	658,062
Share-based payments			2,963			2,963
Share issuance	553,725	27,603				27,603
Share issue costs, net of tax		(996)				(996)
Exercise of options	147,500	6,625				6,625
Transfer to share capital on exercise of options		531	(531)			
Comprehensive income				1,789	50,063	51,852
Dividends					(78,468)	(78,468)
December 31, 2013	31,322,171	685,898	12,791	3,761	(34,809)	667,641
Share-based payments			318			318
Exercise of options	273,500	12,889				12,889
Transfer to share capital on exercise of options		1,184	(1,184)			-
Comprehensive income				1,765	23,041	24,806
Dividends					(27,430)	(27,430)
March 31, 2014	31,595,671	699,971	11,925	5,526	(39,198)	678,224

(1) Contributed surplus comprises of share-based payments

(2) Accumulated other comprehensive income comprises of unrealized gains and losses on available-for-sale investments

See accompanying notes to these condensed financial statements.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

As at March 31, 2014 and December 31, 2013 and for the three months ended March 31, 2014 and 2013 (unaudited)

1. NATURE OF BUSINESS AND SEGMENT INFORMATION

Bonterra Energy Corp. (Bonterra or the Company) is a public company listed on the Toronto Stock Exchange 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.

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

The financial statements were authorized for issue by the Company's Board of Directors on May 14, 2014.

2. BASIS OF PREPARATION

a) Statement of Compliance

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

The accounting policies and method of computation followed in the preparation of the condensed financial statements are the same as those followed in the preparation of Bonterra's 2013 audited annual financial statements. These condensed financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the 2013 audited annual financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

b) Recent Accounting Pronouncements

As of January 1, 2014, the Company adopted several new IFRS interpretations and amendments in accordance with the transitional provisions of each standard. A brief description of each new accounting policy and its impact on the Company's financial statements are as follows:

IAS 36 "Impairment of Assets"

Has been amended to reduce the circumstances in which the recoverable amount of cash generating units "CGUs" is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in a period. The retrospective adoption of these amendments will only impact Bonterra's disclosures in the financial statements in periods when an impairment loss or impairment reversal is recognized.

IAS 39 "Financial Instruments: Recognition and Measurement"

Has been amended to clarify that there would be no requirement to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The retrospective adoption of the amendments does not have any impact on Bonterra's financial statements.

IFRIC 21 "Levies"

Was developed by the IFRS Interpretations Committee (IFRIC) and is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 "Income Taxes") and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. Lastly, the interpretation clarifies that a liability should not be recognized before the specified minimum threshold to trigger that levy is reached. The retrospective adoption of this interpretation does not have any impact on Bonterra's financial statements.

c) Future Accounting Policy Changes

In February 2014, the International Accounting Standards Board (IASB) tentatively decided to require an entity to apply IFRS 9 "Financial Instruments" for annual periods beginning on or after January 1, 2018. IFRS 9 is still available for early adoption. The full impact of the standard on Bonterra's financial statements will not be known until changes are finalized.

3. INVESTMENT IN RELATED PARTY

The investment consists of 1,034,523 (December 31, 2013 – 1,034,523) common shares in Pine Cliff Energy Ltd. (Pine Cliff), a company with some common directors and some common management with Bonterra. The investment in Pine Cliff represents less than one percent ownership in the outstanding common shares of Pine Cliff and is recorded at fair market value. The common shares of Pine Cliff trade on the TSX Venture Exchange under the symbol PNE.

In addition, Geomark Exploration Ltd. (a wholly owned subsidiary of Pine Cliff) owns 204,633 (December 31, 2013 – 204,633) common shares in Bonterra.

4. EXPLORATION AND EVALUATION ASSETS

($ 000s)	
Cost and carrying amount	
Balance at December 31, 2013	7,674
Disposal	(419)
Expiry of exploration and evaluation assets	(24)
Balance at March 31, 2014	**7,231**

In January 2014, the Company sold a portion of its undeveloped land in the Willesden Green area for cash proceeds of $1,000,000. At the time of disposition, the Company had a carrying value of $419,000 for exploration and evaluation expenditures, resulting in a gain on sale of $581,000.

5. PROPERTY, PLANT AND EQUIPMENT

Cost ($ 000s)	Oil and gas properties	Production facilities	Furniture, fixtures & other equipment	Total property, plant & equipment
Balance at December 31, 2013	**892,166**	**215,950**	**1,940**	**1,110,056**
Additions	43,695	11,537	4	55,236
Adjustment to decomissioning liabilities	4,404	-	-	4,404
Balance at March 31, 2014	**940,265**	**227,487**	**1,944**	**1,169,696**

Accumulated Depletion and Depreciation ($ 000s)	Oil and gas properties	Production facilities	Furniture, fixtures & other equipment	Total property, plant & equipment
Balance at December 31, 2013	**(217,522)**	**(55,278)**	**(1,321)**	**(274,121)**
Depletion and depreciation	(19,516)	(4,273)	(26)	(23,815)
Disposal and other	(369)	-	-	(369)
Balance at March 31, 2014	**(237,407)**	**(59,551)**	**(1,347)**	**(298,305)**

Carrying amounts as at: **($ 000s)**				
December 31, 2013	674,644	160,672	619	835,935
March 31, 2014	**702,858**	**167,936**	**597**	**871,391**

The impairment of property, plant and equipment assets and any subsequent reversal of such impairment losses are recognized in the statement of comprehensive income. There were no impairment losses or reversals recorded in the statement of comprehensive income for the three months ended March 31, 2014 and 2013.

6. TRANSACTIONS WITH RELATED PARTIES

As at March 31, 2014, the Company's CEO, Chairman of the Board and major shareholder has loaned the Company $12,000,000 (December 31, 2013 - $12,000,000). The loan bears interest at Canadian chartered bank prime less 5/8th of a percent and has no set repayment terms but is payable on demand. Security under the debenture is over all of the Company's assets and is subordinated to any and all claims in favour of the syndicate of senior lenders providing credit facilities to the Company. Interest paid on this loan during the first three months was $70,000 (March 31, 2013 - $70,000).

The Company received a management fee of $15,000 for the three months ended March 31, 2014 (March 31, 2013 - $15,000) for management services and office administration from Pine Cliff. This fee has been included in other income. As at March 31, 2014, the Company had an account receivable from Pine Cliff of $203,000 (December 31, 2013 - $217,000).

7. SUBORDINATED PROMISSORY NOTE

As at March 31, 2014, Bonterra has borrowed $40,000,000 (December 31, 2013 - $25,000,000) from a private investor, in exchange for a Subordinated Promissory Note. The terms of the Subordinated Promissory Note are that it bears interest at three percent and is repayable after thirty days written notice by either party. Security consists of a floating demand debenture totaling $40,000,000 over all of the Company's assets and is subordinated to any and all claims in favor of the syndicate of senior lenders providing credit facilities to the Company. Interest paid on the subordinated promissory note during the first three months was $271,000 (March 31, 2013 - $111,000).

The Company's bank agreement requires that the above loan can only be repaid should the Company have sufficient available borrowing limits under the Company's credit facility.

8. BANK DEBT

As at March 31, 2014, the Company has bank facilities consisting of $220,000,000 (December 31, 2013 - $220,000,000) syndicated revolving credit facility and a $30,000,000 (December 31, 2013 - $30,000,000) non-syndicated revolving credit facility, for total facilities of $250,000,000. Amounts drawn under the credit facilities at March 31, 2014 were $143,103,000 (December 31, 2013 - $156,764,000). Amounts borrowed under the credit facilities at March 31, 2014 bear interest at a floating rate based on the applicable Canadian prime rate, which is presently three percent or Banker's Acceptance rate, plus between 0.75 percent and 3.50 percent, depending on the type of borrowing and the Company's consolidated total funded debt to consolidated cash flow. The terms of the revolving credit facilities provided that the loan is revolving to April 24, 2014 and with a maturity date of April 25, 2015 and is subject to annual review. Effective April 24, 2014, the Company renewed its bank facility under similar terms and conditions with the exception of extending the revolving period to April 30, 2015 and the maturity date to April 30, 2016. The revolving credit facilities have no fixed terms of repayment.

The amount available for borrowing under the credit facilities is reduced by outstanding letters of credit. Letters of credit totaling $700,000 were issued as at March 31, 2014 (December 31, 2013 - $700,000). Security for credit facilities consists of various and floating demand debentures totaling $400,000,000 (December 31, 2013 - $400,000,000) over all of the Company's assets and a general security agreement with first ranking over all personal and real property.

The following is a list of the material covenants on the banking facility:

- The Company is required to not exceed $250,000,000 in consolidated debt (includes working capital but excludes amounts due to related parties and the subordinated promissory note).
- Dividends paid in the current quarter shall not exceed 80 percent of the average available cash flow for the preceding four fiscal quarters.

Available cash flow is defined to be cash provided by operating activities excluding gains on sale of property and investments, the change in non-cash working capital and decommissioning liabilities settled and including all net proceeds of dispositions included in cash used in investing activities. At March 31, 2014, the Company is in compliance with all covenants.

9. INCOME TAXES

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

($ 000s)	Rate of Utilization (%)	Amount
Undepreciated capital costs	20-100	86,887
Eligible capital expenditures	7	5,418
Share issue costs	20	5,988
Canadian oil and gas property expenditures	10	65,917
Canadian development expenditures	30	245,920
Canadian exploration expenditures	100	8,441
Income tax losses carried forward (1)	100	144,345
		562,916

(1) Federal income tax losses carried forward expire in the following years; 2026 - $86,665,000; 2027 - $35,248,000; 2028 - $13,131,000; 2031 - $9,301,000.

The Company has $27,670,000 (December 31, 2013 - $27,670,000) remaining of investment tax credits that expire in the following years; 2018 - $3,469,000; 2019 - $3,059,000; 2020 - $4,667,000; 2021 - $3,909,000; 2022 - $3,155,000; 2023 - $1,995,000; 2024 - $2,257,000; 2025 - $2,405,000; 2026 - $2,009,000; 2027 - $745,000.

The Company also has $134,566,000 (December 31, 2013 - $134,938,000) of capital loss carry forwards which can only be claimed against taxable capital gains.

On November 14, 2013, the Company received a proposal letter from the Canada Revenue Agency (CRA) which stated its intention to challenge the tax consequences of Bonterra's reorganization from a trust to a Corporation, which occurred on November 18, 2008. The CRA position is based on the acquisition and control rules in addition to the general anti-tax avoidance rules in the Income Tax Act. In 2014, if CRA issues a Notice of Reassessment for Bonterra's 2008 and subsequent taxation periods, Bonterra would be required to make a payment of 50% of the tax liability claimed by the CRA in order to appeal this reassessment. If such reassessments are issued and maintained on appeal, Bonterra will owe total cash taxes of approximately $41 million and have to pay approximately 50% or $20.5 million for the taxation years since the conversion including the first three months of 2014. Bonterra would have 90 days from the Notice of Reassessment to prepare and file a Notice of Objection. If the CRA is not in agreement with Bonterra's Notice of Objection, Bonterra has the option to file its case with the Tax Court of Canada. Bonterra anticipates that legal proceedings through various tax courts would take approximately 2 to 4 years. If Bonterra receives a positive ruling, then any taxes, interest and penalties paid to the CRA will be refunded plus interest. If Bonterra is unsuccessful then any remaining taxes payable plus interest and penalties will be remitted.

The impact of the proposal on Bonterra's tax provision has been considered by management; however management remains of the opinion, that after careful consideration and consultation at the time of the conversion, Bonterra's subsequent tax filings were correct as filed.

If the proposed reassessments are filed, management will vigorously defend Bonterra's tax filing position.

10. SHAREHOLDERS' EQUITY

Authorized

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

Issued and fully paid – common shares	**Number**	**Amount ($ 000s)**
Balance, December 31, 2013	**31,322,171**	**685,898**
Issued pursuant to the Company's share option plan	273,500	12,889
Transfer from contributed surplus to share capital		1,184
Balance, March 31, 2014	**31,595,671**	**699,971**

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

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

	2014	2013
Basic shares outstanding	**31,516,954**	27,764,571
Dilutive effect of share options [1]	**158,357**	58,482
Diluted shares outstanding	**31,675,311**	27,823,053

(1) The Company did not include 150,500 share options for the three months ended March 31, 2014 (March 31, 2013 – 1,219,000) in the dilutive effect of share options calculation as these share options were anti-dilutive.

For the three months ended March 31, 2014, the Company declared and paid dividends of $27,430,000 ($0.87 per share) (March 31, 2013 - $21,712,000 ($0.80 per share)).

The Company provides an equity settled option plan for its directors, officers, employees and consultants. Under the plan, the Company may grant options for up to 3,159,567 (December 31, 2013 – 3,132,217) 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 option plan as of March 31, 2014, and changes during the year ended on those dates is presented below:

	Number of options	**Weighted average exercise price**
Balance, December 31, 2013	1,650,500	$48.31
Options granted	723,000	51.38
Options exercised	(273,500)	47.13
Options forfeited	(143,000)	48.62
Balance, March 31, 2014	1,957,000	$49.59

The following table summarizes information about options outstanding at March 31, 2014:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number outstanding at March 31, 2014	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at March 31, 2014	Weighted-average exercise price
$ 40.00 – $ 50.00	751,000	1.0 years	$45.77	361,000	$45.03
50.01 – 60.00	1,206,000	1.1 years	51.96	486,500	52.63
$ 40.00 – $ 60.00	1,957,000	1.1 years	$49.59	847,500	$49.39

The Company records compensation expense over the vesting period, which ranges between one to three years, based on the fair value of options granted to employees, directors and consultants. In 2014, the Company granted 723,000 stock options with an estimated fair value of $1,598,000 or $2.21 per option using the Black-Scholes option pricing model with the following key assumptions:

	March 31, 2014
Weighted-average risk free interest rate (%)(1)	**0.96**
Expected life (years)	**1.1**
Weighted-average volatility (%) (2)	**17.36**
Forfeiture rate (%)	**-**
Weighted average dividend yield (%)	**6.76**

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

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

11. OIL AND GAS SALES, NET OF ROYALTIES

($ 000s)	**March 31, 2014**	March 31, 2013
Oil and gas sales	**82,521**	66,468
Less:		
Crown royalties	**(5,233)**	(3,985)
Freehold, gross overriding royalties and other	**(4,233)**	(2,820)
Oil and gas sales, net of royalties	**73,055**	59,663

12. OTHER INCOME

($ 000s)	**March 31, 2014**	March 31,2013
Investment income	**18**	35
Administrative income	**191**	53
Gain on sale of property	**581**	-
Realized gain on investments	**-**	115
Other income	**790**	203

13. SUBSEQUENT EVENTS

Subsequent to March 31, 2014, the Company has declared the following dividends:

Date declared	Record date	$ per share	Date payable
April 1, 2014	April 15, 2014	0.29	April 30, 2014
May 1, 2014	May 15, 2014	0.29	May 30, 2014

Corporate Information

Board of Directors
G. F. Fink - Chairman
G. J. Drummond
R. M. Jarock
C. R. Jonsson
R. A. Tourigny
F.W. Woodward

Officers
G. F. Fink, CEO and Chairman of the Board
R. D. Thompson, CFO and Corporate Secretary
A. Neumann, Chief Operating Officer
B. A. Curtis, Vice President, Business Development

Registrar and Transfer Agent
Olympia Trust Company, Calgary, Alberta

Auditors
Deloitte LLP, Calgary, Alberta

Solicitors
Borden Ladner Gervais LLP, Calgary, Alberta

Bankers
CIBC, Calgary, Alberta
Alberta Treasury Branch, Calgary, Alberta
National Bank of Canada, Calgary, Alberta
TD Securities, Calgary, Alberta
J.P. Morgan, Calgary, Alberta

Head Office
901, 1015 – 4th Street SW
Calgary, Alberta T2R 1J4
Telephone: 403.262.5307
Fax: 403.265-7488
Email: info@bonterraenergy.com

Website
www.bonterraenergy.com