

Bonterra Oil & Gas Ltd.



First Quarter 2009

HIGHLIGHTS

For the three months ended (\$ 000 except \$ per unit)	March 31, 2009	December 31, 2008	March 31, 2008
FINANCIAL			
Revenue – realized oil and gas sales	19,300	22,613	30,493
Cash flow from operations	6,632	10,336	16,212
Per share/unit – basic	0.38	0.59	0.96
Per share/unit – diluted	0.38	0.59	0.96
Payout ratio ⁽¹⁾	94%	105%	73%
Funds flow ⁽³⁾	8,376	9,880	18,058
Per share/unit – basic	0.49	0.57	1.07
Per share/unit – diluted	0.49	0.57	1.06
Payout ratio ⁽¹⁾	74%	109%	66%
Cash dividends per share/unit ⁽¹⁾	0.36	0.62	0.70
Net earnings	6,093	10,585	10,804
Per share/unit – basic	0.35	0.62	0.64
Per share/unit – diluted	0.35	0.62	0.64
Capital expenditures and acquisitions	2,696	30,405	6,421
Total assets	260,732	265,301	150,169
Working capital deficiency	14,909	23,878	57,810
Long-term debt	89,383	79,910	-
Shareholders'/unitholders' equity	56,377	56,777	48,136
OPERATIONS			
Oil and NGLs – barrels per day	3,268	3,105	3,153
– average price (\$ per barrel)	45.80	58.91	87.20
Natural gas – MCF per day	12,223	8,892	7,139
– average price (\$ per MCF)	5.19	7.00	8.32
Total barrels of oil equivalent per day (BOE) ⁽²⁾	5,305	4,587	4,343

⁽¹⁾ Cash payments per share/unit are based on payments made in respect of production months within the quarter.

⁽²⁾ BOE is calculated using a conversion ratio of 6 MCF to 1 barrel of oil. The conversion is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead and as such may be misleading if used in isolation.

⁽³⁾ Funds flow is not a recognized measure under GAAP. For these purposes, the Company defines funds flow as funds provided by operations before changes in non-cash operating working capital items excluding gain on sale of property and asset retirement expenditures.

REPORT TO SHAREHOLDERS

Bonterra Oil & Gas Ltd. (“Bonterra” or “the Company”) is pleased to report the operating and financial results for the three months ended March 31, 2009. Despite continued weakness in the commodity and credit markets, the Company was able to continue its long-term approach to both operating its business and creating additional value for shareholders. As a result of this approach, Bonterra was able to grow its production through its capital development program which included a successful operated horizontal well in the Pembina Cardium field, low cost field optimization and sustainable operating cost reductions. Subsequent to quarter-end, the Company also strengthened its financial position by increasing its bank line and raising funds through a private placement and expanded its asset base through a strategic corporate acquisition.

Operations

Bonterra achieved record production volumes of 5,305 barrels of oil equivalent (BOE) per day during the first quarter of 2009. This represents an increase of 16 percent over the previous quarter and 22 percent over the first quarter of 2008. This increase is due to the Company’s successful capital development program and the acquisition and subsequent optimization of the Silverwing Energy Inc. (Silverwing) properties in the Company’s new core area of Northeast British Columbia. The Silverwing corporate acquisition closed in November, 2008.

The Company has been successful in reducing operating costs by over nine percent in the first quarter of 2009 compared to the previous quarter as a result of a focused review of its operating costs and increased production volumes. Operating costs are projected to remain lower than in previous years because of further field optimization and reduced costs of services.

As part of the capital development program, Bonterra successfully drilled and placed on production its first operated Cardium horizontal well in the Pembina area of west central Alberta (25 percent working interest). The well’s first month production (February, 2009) averaged approximately 250 barrels of oil per day. It is currently producing approximately 145 barrels of oil per day and 85 MCF per day of solution gas which is being conserved.

Bonterra has a very large land position in the Pembina field with a significant amount of undeveloped land with similar reservoir characteristics to the above horizontal well. Working interests range from 25 to 100 percent and with the recent Crown royalty credit announcement by the Alberta government, the Company plans on drilling additional horizontal Pembina Cardium oil wells to further evaluate the play as well as continuing with its selective vertical Pembina Cardium wells.

Bonterra’s 2009 capital program is currently expected to total \$20 million. This has been increased from \$15 million due to the Alberta government’s recent royalty and incentive programs, the Company’s strengthened financial position, improving commodity prices and encouraging drilling results. Drilling is anticipated to commence late in the second quarter with the majority of the drilling expenditures expected to be incurred during the third and fourth quarters of 2009.

Maintaining Financial Strength

Subsequent to the quarter-end, Bonterra entered into a new syndicated banking facility effective April 29, 2009. The maximum borrowing amount of the new facility has been increased to \$120 million from \$100 million and consists of a \$100 million syndicated revolving credit facility and a \$20 million non-syndicated revolving credit facility. The terms of the new facility provides that the loan is revolving until April 28, 2011 and is subject to an annual review and has no fixed payment requirements.

Also subsequent to the quarter-end, the Company entered into a bought-deal private placement financing where it will issue 890,000 common shares at a price of \$16.85 per share for gross proceeds of \$15,000,000.

The underwriters also have an option exercisable prior to the closing date to increase the size of the offering up to an additional 178,000 common shares at a price of \$16.85 for further proceeds of up to \$2,999,300 which would increase the offering to \$17,999,300. This transaction is expected to close prior to May 31, 2009.

This further strengthens Bonterra's financial position and provides increased flexibility for the Company to fund its 2009 capital development program and continue to pursue additional acquisition opportunities as they become available. In addition, Bonterra will continue to seek new ways to strengthen its financial position through cost reduction initiatives, low-cost production optimization, project reviews and exploring and implementing operational efficiencies across its business.

Strategic Acquisition

Bonterra continues to diligently assess additional opportunities to grow its reserves and production through strategic acquisitions. Subsequent to the quarter-end, the Company entered into a letter of intent to proceed with a proposed plan of arrangement to acquire all of the issued and outstanding shares of Cobalt Energy Ltd. (Cobalt).

Cobalt is a junior oil and gas exploration and production company operating in western Canada with production of approximately 85 BOE per day. Cobalt's main assets consist of a 43.18 percent working interest in the Company's above-mentioned horizontal well and additional lands with Cardium horizontal well potential in Pembina with working interests ranging between 25 and 43.18 percent. These lands are operated by Bonterra.

The board of directors of Cobalt has unanimously approved the proposed transaction and, subject to receipt of an independent fairness opinion, intends to recommend that the shareholders vote in favour of the proposed transaction. Cobalt has agreed to pay a non-completion fee not to exceed \$400,000 to Bonterra under certain circumstances. Shareholders of Cobalt will be asked to approve the Plan of Arrangement at a special meeting of shareholders expected to be scheduled in late June, 2009. The plan will, amongst other closing conditions, require the approval of 66 2/3 percent of the votes cast by the shareholders and the approval of the Court of Queen's Bench of Alberta. The transaction may also be subject to TSX Venture Exchange and other regulatory approvals.

Commodity Prices

During the first quarter of 2009, the continued and significant weakness in commodity prices impacted the Company's financial performance. Average realized prices for crude oil declined 22 percent quarter over quarter and 47 percent from the first quarter of 2008 while average realized prices for natural gas declined 26 percent quarter over quarter and 38 percent from the same period in 2008. This resulted in significant declines in revenue, net earnings and cash flow from operations.

Crude oil prices have been improving in the second quarter while natural gas prices have continued their decline. Bonterra currently anticipates that crude oil and natural gas prices will not change significantly from the current levels for the remainder of 2009. As a result, commodity prices are expected to continue to significantly and negatively impact results compared to 2008. The price declines should be partially offset by increases in production volumes and a reduction in operating costs and royalties.

Cash dividends paid to shareholders totaled \$0.36 per share in the first quarter of 2009. This represents a monthly dividend of \$0.12 per share with a payout ratio of 74 percent of funds flow during the quarter. The Board of Directors and management will continue to monitor dividend levels, payout ratios and capital expenditures on a monthly basis and adjust the amount if necessary. However, the monthly dividend level has been set at an amount deemed appropriate to both balance capital development requirements while providing investors with a maximized and stable cash payment. If current commodity prices are sustained or increase, Bonterra should be in a position to increase dividends.

Summary

In conclusion, Bonterra remains well-positioned to both continue its strong dividend policy and ensure the long-term sustainability of its business. The Company's focus is on maximizing its high-quality asset base, finding additional operational efficiencies and taking advantage of continued opportunities due to the low price environment, including lower land costs, lower project costs and acquisition opportunities. Bonterra's improved financial strength well-positions the Company to capitalize on these objectives and the Company will strive to add further value on behalf of investors.



George F. Fink
Chief Executive Officer and Director



Randy M. Jarock
President and Chief Operating Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following report dated May 8, 2009 is a review of the operations and current financial position for Bonterra Oil & Gas Ltd. (Bonterra or the Company) and should be read in conjunction with the unaudited financial statements for the three months ended March 31, 2009, including the notes related thereto, and the audited financial statements for the fiscal year ended December 31, 2008, together with the notes related thereto.

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.

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.

FINANCIAL AND OPERATIONAL DISCUSSION

Quarterly Comparisons

Financial (\$ 000 except \$ per unit)	2009		2008		
	Q1	Q4	Q3	Q2	Q1
Revenue – realized oil and gas sales	19,300	22,613	34,226	34,398	30,493
Cash flow from operations	6,632	10,336	22,492	20,530	16,212
Per share/unit – basic	0.38	0.59	1.31	1.21	0.96
Per share/unit – fully diluted	0.38	0.59	1.30	1.20	0.96
Cash payments per share/unit ⁽¹⁾	0.36	0.62	0.96	0.84	0.70
Payout Ratio ⁽¹⁾	94%	105%	73%	69%	73%
Net earnings	6,093	10,585	21,125	12,912	10,804
Per share/unit – basic	0.35	0.62	1.23	0.76	0.64
Per share/unit – fully diluted	0.35	0.62	1.22	0.75	0.64
Capital expenditures and acquisitions	2,696	30,405	6,038	2,543	6,421
Total assets	260,732	265,301	150,120	153,247	150,169
Working capital deficiency	14,909	23,878	47,499	57,148	57,810
Long-term debt	89,383	79,910	-	-	-
Shareholders'/unitholders' equity	56,377	56,777	57,623	46,612	48,136
Operations					
Oil and NGLs (barrels per day)	3,268	3,105	3,013	3,024	3,153
Natural gas (MCF per day)	12,223	8,892	7,233	7,272	7,139
Total BOE per day ⁽²⁾	5,305	4,587	4,219	4,236	4,343

Financial (\$ 000 except \$ per unit)	2007			
	Q4	Q3	Q2	Q1
Revenue – realized oil and gas sales	26,573	23,794	23,462	22,602
Cash flow from operations	13,369	11,886	13,413	12,765
Per unit – basic	0.79	0.70	0.79	0.76
Per unit – fully diluted	0.79	0.70	0.79	0.76
Cash distributions ⁽¹⁾	0.66	0.66	0.66	0.66
Payout Ratio ⁽¹⁾	84%	94%	84%	87%
Net earnings	8,372	8,945	5,371	7,662
Per unit – basic	0.49	0.53	0.32	0.45
Per unit – fully diluted	0.49	0.53	0.32	0.45
Capital expenditures and acquisitions	7,213	2,763	1,699	7,625
Total assets	143,239	138,140	139,432	140,926
Working capital deficiency	58,766	50,041	49,595	49,288
Long-term debt	-	-	-	-
Unitholders' equity	44,218	50,820	51,920	57,646
Operations				
Oil and NGLs (barrels per day)	3,098	3,054	3,074	3,227
Natural gas (MCF per day)	7,176	6,196	6,663	6,470
Total BOE per day ⁽²⁾	4,295	4,086	4,184	4,305

⁽¹⁾ Cash payments per share/unit are based on payments made in respect of production months within the quarter.

⁽²⁾ BOE is calculated using a conversion ratio of 6 MCF to 1 barrel of oil. The conversion is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead and as such may be misleading if used in isolation.

Production

	Three months ended		
	March 31, 2009	December 31, 2008	March 31, 2008
Crude oil and NGLs (barrels per day)	3,268	3,105	3,153
Natural gas (MCF per day)	12,223	8,892	7,139
Average BOE per day	5,305	4,587	4,343

Barrels of oil equivalent (BOE) are calculated using a conversion ratio of 6 MCF to 1 barrel of oil. The conversion is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead and as such may be misleading if used in isolation.

Production volumes for the first quarter of 2009 were a record for the Company. Added production related to the Silverwing Energy Inc. (Silverwing) acquisition (approximately 650 BOE per day), Bonterra's Q4 2008 drilling program including the start of production from the Company's first Pembina Cardium horizontal well and new gas wells drilled and optimization of existing wells on former Silverwing properties (totaling approximately 250 BOE per day). These additions more than offset Bonterra's average corporate production decline of approximately two percent per quarter.

The Company did not drill any wells during the first quarter of 2009. It did participate in several small interest wells resulting in approximately one net gas well. As of March 31, 2009, all of the Company's operated drilled oil and natural gas wells (excluding 3 (2.5 net) coalbed methane wells) were on production.

Revenue

(\$)	Three months ended		
	March 31, 2009	December 31, 2008	March 31, 2008
Revenue – oil and gas sales (000's)	19,300	22,613	30,493
Average Realized Prices:			
Crude oil and NGLs (per barrel)	45.80	58.91	87.20
Natural gas (per MCF)	5.19	7.00	8.32

Revenue from petroleum and natural gas sales decreased \$11,193,000 from the corresponding 2008 quarter primarily due to a 47 percent drop in crude oil prices and a 38 percent drop in natural gas prices. Quarter over quarter saw a decline in revenues of \$3,313,000 again due to declining commodity prices (approximately 25 percent). Crude oil prices increased modestly in the month of March however natural gas prices continued to fall throughout the first quarter.

Royalties

(\$ 000)	Three months ended		
	March 31, 2009	December 31, 2008	March 31, 2008
Crown royalties	1,364	2,337	3,613
Freehold royalties, gross overriding royalties and net carried interests	501	558	731
Total royalty expense	1,865	2,895	4,344

Royalties paid by the Company consist primarily of Crown royalties paid to the Provinces of Alberta, Saskatchewan and British Columbia. Most of the Company's wells are low productivity wells and therefore have low Crown royalty rates. The Company's average Crown royalty rate is approximately 7.1 percent (2008 – 11.3 percent) and approximately 2.6 percent (2008 – 2.3 percent) for other royalties.

The recently announced new Alberta Crown royalty rates vary by prices as well as productivity levels. With recent declines in commodity prices and the Silvering acquisition (mostly BC production with lower Crown royalty rates) the Company has experienced a significant reduction in Crown royalties in Q1 2009.

The government of the province of Alberta has recently announced drilling incentives and royalty reductions in respect of wells drilled after April 1, 2009 and prior to March 31, 2010. The Company is currently examining its capital requirements (see Liquidity and Capital Resources) and the impact on its crown royalty for newly drilled wells in that period. The Company is planning on maximizing the crown royalty credits available under the new drilling incentive program which should result in lower crown royalty payments in the third and fourth quarters of 2009 and first quarter of 2010.

Production Costs

(\$ 000)	Three months ended		
	March 31, 2009	December 31, 2008	March 31, 2008
Production costs	7,038	6,859	6,317
\$ per BOE	14.74	16.25	15.98

Total production costs in Q1 2009 have increased by \$721,000 over Q1 2008. The increase is due to increased production volumes (see Production). On a BOE basis production costs have declined mainly due a general decline in service and material costs resulting from decreased industry demand and field optimization.

The Company's production comes primarily from low productivity wells. These wells generally result in higher production costs on a per unit-of-production basis as costs such as municipal taxes, surface leases, power and personnel costs are not variable with production volumes. The high production costs for the Company are substantially offset by current low royalty rates of approximately 9.7 percent, which is much lower than industry average for conventional production and results in high cash netbacks on a combined basis despite higher than industry average production costs.

With the acquisition of Silverwing and the Company's recent drilling success and expected continued declines in oilfield service costs, the Company anticipates operating costs will remain in the \$14 to \$15 per BOE range for 2009.

General and Administrative (G&A) Expense

(\$ 000)	Three months ended		
	March 31, 2009	December 31, 2008	March 31, 2008
G&A Expense	939	824	877
\$ per BOE	1.97	1.95	2.22

The increase in G&A expense year over year was due to increased contract personal costs (\$123,000) related to temporary staffing needs, professional service costs (\$30,000) related to IFRS and internal control

reviews, computer services fees (\$99,000) related to new monthly geological software licensing fees and service costs related to a new production accounting software, bad debt expense (\$28,000) due to the receivership of one of the Company's joint venture partners, bank charges (\$25,000) related to the old banking facility, offset partially by reduced employee compensation (\$283,000).

G&A costs are anticipated to remain at approximately \$1,000,000 per quarter (\$2 per BOE) as costs associated with contract personnel and production accounting will be reduced, but will be offset with additional bank charges related to the new banking facility (approximately \$100,000 per quarter).

Interest Expense

(\$ 000)	Three months ended		
	March 31, 2009	December 31, 2008	March 31, 2008
Interest Expense	826	746	799

Interest charges increased as the Q1 2009 average outstanding debt balance (included related party balances) increased by \$43,500,000 over Q1 2008. The acquisition of Silverwing as well as the reorganization into a corporation resulted in an approximate additional \$44.5 million of debt. Offsetting the increased debt balances was an average reduction of 2.25 percent in interest rates paid on the outstanding debt balances.

Effective April 29, 2009, the Company entered into a new bank facility under similar terms and conditions. The new facility consists of a \$100,000,000 syndicated revolving credit facility and a \$20,000,000 non-syndicated revolving credit facility.

The interest rate on the new credit facility is calculated as follows:

	Level I	Level II	Level III	Level IV	Level V
Consolidated Total Funded Debt ⁽¹⁾ to Consolidated Cash flow Ratio	Under 1.0:1	Over 1.0:1 to 1.5:1	Over 1.5:1 to 2.0:1	Over 2.0:1 to 2.5:1	Over 2.5:1
Canadian Prime Rate Plus ⁽²⁾	125	150	175	200	250
Bankers' Acceptances Rate Plus ⁽²⁾	275	300	325	350	400

⁽¹⁾ Consolidated total funded debt excludes related party amounts but includes working capital.

⁽²⁾ Numbers in table represent basis points.

Consolidated total funded debt to consolidated cash flow ratio shall be adjusted effective as of the first day of the next fiscal quarter following the end of each fiscal quarter, with each such adjustment to be effective until the next such adjustment.

The above rate schedule combined with current bank prime and interest rates on the related party debt is expected to result in average borrowing costs of approximately four percent for the balance of the fiscal year.

Stock-Based Compensation

Stock-based compensation is a statistically calculated value representing the estimated expense of issuing employee unit options. The Company records a compensation expense over the vesting period based on the fair value of options granted to employees, directors and consultants. Based on currently outstanding

options, the Company anticipates that an expense of approximately \$700,000 will be recorded for the balance of 2009, \$350,000 in 2010 and \$160,000 in 2011.

Depletion, Depreciation, Accretion and Dry Hole Costs

The Company follows the successful efforts method of accounting for petroleum and natural gas exploration and development costs. Under this method, the costs associated with dry holes are charged to operations. For intangible capital costs that result in the addition of reserves, the Company depletes its oil and natural gas intangible assets using the unit-of-production basis by field.

For tangible assets such as well equipment, a life span of ten years is estimated and the related tangible costs are depreciated at one tenth of original cost per year. The use of a ten year life span instead of calculating depreciation over the life of reserves was determined to be more representative of actual costs of tangible property. Given the Company's long production life, wells generally require replacement of tangible assets more than once during their life time. Most of the Company's wells have been producing since the 1960's and are expected to continue to produce for at least another twenty years.

Provision for depletion, depreciation and accretion was \$4,614,000 and \$3,494,000, respectively for the three month periods ending March 31, 2009 and March 31, 2008. The increase in the depletion amount was due primarily to increased production volumes and an increase in the average cost of reserves resulting from the Silverwing acquisition. The Company has capital costs of approximately \$6.60 (March 31, 2008 - \$6.10) per proved BOE of reserves based on the December 31, 2008 independent engineering report.

Taxes

On November 12, 2008, the Company converted from a trust to a corporation. Due to the conversion and the acquisition of Silverwing, the Company increased its usable tax pools to approximately \$468,000,000. As a result of the reorganization, the Company has recorded a future income tax asset and a corresponding deferred tax credit. These amounts will be amortized into future tax expense as the associated tax pools are consumed.

The current tax provision relates to resource surcharge of \$53,000 payable by the Company to the Province of Saskatchewan as well as a capital tax amount of \$269,000 payable to the Province of Quebec. The resource surcharge is calculated as a flat percent of revenues generated from the sale of petroleum products produced in Saskatchewan. The resource surcharge rate is 3 percent in 2009. The capital tax payable to the Province of Quebec is a one-time charge.

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

(\$ 000)	Rate of Utilization (%)	Amount
Undepreciated capital costs	20-100	\$ 24,410
Eligible capital expenditures	7	1,837
Share issue costs	20	4,112
Canadian oil and gas property expenditures	10	24,749
Canadian development expenditures	30	51,858
Canadian exploration expenditures	100	11,279
SR&ED expenditures	100	80,357
Income tax losses carried forward ⁽¹⁾	100	263,482
		\$ 462,084

⁽¹⁾ Income tax losses carried forward expire in the following years; 2014 - \$1,069,000, 2025 - \$3,179,000, 2026 - \$92,857,000, 2027 - \$116,787,000, 2028 - \$40,750,000, 2029 - \$8,840,000.

The Company has \$27,670,000 of investment tax credits (ITC) that expire in the following years; 2009 - \$3,469,000, 2010 - \$3,059,000, 2011 - \$4,667,000, 2012 - \$3,909,000, 2013 - \$3,155,000, 2014 - \$1,995,000, 2015 - \$2,257,000, 2016 - \$2,405,000, 2017 - \$2,009,000, 2018 - \$745,000.

The amount and timing of reversals of temporary differences will also depend on the Company's future operating results, 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 future income tax asset.

Net Earnings

(\$ 000)	Three months ended		
	March 31, 2009	December 31, 2008	March 31, 2008
Net Earnings	6,093	10,585	10,804

Net earnings decreased in the first three months of 2009 by \$4,711,000 from the corresponding 2008 period and \$4,492,000 from Q4 2008. Reduced revenues resulted from decreased commodity prices that more than offset production volume gains. The Company continues to return in excess of 30 percent of its gross realized revenues in net earnings. The Company's low capital costs combined with the Company's low production decline rates should allow for continued positive earnings even in the current low commodity price environment.

Comprehensive Income

Other comprehensive income for 2009 consists of an unrealized gain on investment in a related party of \$181,000 (2008 - \$171,000) due to an increase in the related company's fair value.

Cash Flow from Operations

(\$ 000)	Three months ended		
	March 31, 2009	December 31, 2008	March 31, 2008
Cash flow from operations	6,632	10,336	16,212

First quarter 2009 cash flow from operations decreased 59 percent compared to Q1 2008 due to decreased commodity prices received during the first three months of 2009.

Due to accounting software upgrades, financial regulatory requirements and integration of the Silverwing acquisition, the normal month end cheque run for the month of December was not processed until January 2009. This resulted in approximately \$1.5 million of operating accounts payable being paid in Q1 2009 which would normally have been paid in Q4 of 2008. The impact on cash flow from operations was a decrease of \$1.5 million in Q1 2009 and an increase to Q4 2008 of an equivalent amount. After adjusting for the timing of these payables, Q1 2009 cash flow from operations would have been only slightly below that of Q4 2008.

With the continuing depressed crude oil and natural gas prices, cash flow for the remainder of 2009 is expected to be significantly negatively affected compared to 2008 figures. The price declines should be partially offset by increases in production volumes to approximately 5,250 BOE per day for 2009 and a reduction in royalties.

Cash Netback

The following table illustrates the Company's cash netback from operations (excludes reorganization costs) for the three month periods ended:

\$ per Barrel of Oil Equivalent (BOE)	March 31, 2009	December 31, 2008	March 31, 2008
Production volumes (BOE)	477,495	422,008	395,176
Gross production revenue	\$ 40.42	\$ 51.27	\$ 80.62
Realized gain (loss) on risk management contracts	-	2.31	(3.46)
Royalties	(3.91)	(6.86)	(10.99)
Field operating costs	(14.74)	(16.25)	(15.98)
Field netback	21.77	30.47	50.19
General and administrative	(1.97)	(1.95)	(2.22)
Interest and taxes	(2.40)	(1.90)	(2.30)
Cash netback	\$ 17.40	\$ 26.62	\$ 45.67

Related Party Transactions

The Company holds 689,682 (December 31, 2008 – 689,682) common shares in Comaplex Minerals Corp. which have a fair market value as of March 31, 2009 of \$2,338,000 (December 31, 2008 - \$2,131,000). Comaplex is a publically traded mineral company on the Toronto Stock Exchange. The Company's ownership in Comaplex represents approximately 1.3 percent of the issued and outstanding common shares of Comaplex. The Company has common directors and management with Comaplex.

Comaplex paid a management fee to the Company of \$82,500 (2008 - \$82,500). Comaplex also shares office rental costs and reimburses the Company for costs related to employee benefits and office materials. In addition, Comaplex owns 204,633 (December 31, 2008 – 204,633) common shares in the Company. Services provided by the Company include executive services (chief executive officer, president and vice president, finance duties), accounting services, oil and gas administration and office administration. All services performed are charged at estimated fair value. At March 31, 2009, Comaplex owed the Company \$60,000 (December 31, 2008 - \$56,000).

As of March 31, 2009, Comaplex has loaned the Company \$12,000,000 (December 31, 2008 - Nil). The loan is unsecured, bears interest at Canadian chartered bank prime plus one quarter of a percent and has no set repayment terms. 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 during the first quarter of 2009 was \$3,000. This loan results in Comaplex receiving increased interest income and providing Bonterra with a lower cost of capital.

The Company also has a management agreement with Pine Cliff Energy Ltd. (Pine Cliff). Pine Cliff has common directors and management with the Company. Pine Cliff trades on the TSX Venture Exchange. Pine Cliff paid a management fee to the Company of \$30,000 (2008 - \$59,400). Services provided by the Company include executive services (president and vice president, finance duties), accounting services, oil and gas administration and office administration. All services performed are charged at estimated fair value. The Company has no share ownership in Pine Cliff. As at March 31, 2009 the Company had an account receivable from Pine Cliff of \$Nil (December 31, 2008 – \$1,000).

As of March 31, 2009, the Company's CEO and major shareholder has loaned the Company \$10,000,000 (December 31, 2008 - \$6,000,000). The loan is unsecured, bears interest at Canadian chartered bank prime less one half of a percent and has no set repayment terms. The loan can only be repaid should the Company have sufficient available borrowing limits under the Company's credit facility. Effective May 1, 2009 the

interest rate was increased to Canadian chartered bank prime. Interest paid on this loan during the first quarter of 2009 was \$48,000 (Last quarter 2008 - \$7,000). This loan results in the major shareholder receiving increased interest income and providing Bonterra with a lower cost of capital.

Liquidity and Capital Resources

During the first three months of 2009, the Company incurred capital costs of \$2,696,000 (2008 - \$6,421,000). The Company did not directly drill any wells during the first quarter but did participate in a number of smaller interest natural gas wells (approximately one net) for total costs of \$686,000. Bonterra did spend approximately \$1,300,000 on completion and tie in costs in respect to wells drilled in Q4 2008. The balance of the capital expenditures of approximately \$710,000 related to various capital projects ranging from pipeline tie-ins to maximizing natural gas production to various battery upgrades to enhance overall production from existing wells.

The Company currently has plans to spend an estimated \$20,000,000 on capital projects, (recently increased from \$15,000,000). With the recent Crown royalty credit announcement by the Alberta government, the Company plans on drilling additional horizontal Pembina Cardium oil wells as well as selective vertical Pembina Cardium wells. The exact number of each will depend on drilling success and commodity prices. Drilling is anticipated to commence in the second quarter with the majority of the drilling expenditures expected to be incurred during the third and fourth quarters.

Bonterra anticipates funding the 2009 capital program out of cash flow and the Company's line of credit. Effective April 29, 2009, the Company entered into a new bank facility under similar terms and conditions. The new facility consists of a \$100,000,000 syndicated revolving credit facility and a \$20,000,000 non-syndicated revolving credit facility. At March 31, 2009 the Company's bank loan was \$89,383,000 (December 31, 2008 - \$79,910,000). The terms of the new facility provides that the loan is revolving until April 28, 2011, is subject to annual review and has no fixed payment requirements.

The following is a list of the material covenants:

- The Company is required to not exceed \$120,000,000 in consolidated debt (includes negative working capital but excludes debt to related parties).
- Dividends paid in any quarter shall not exceed 80 percent of the average of the previous four quarters' cash flow as defined under GAAP.

Bonterra, subsequent to the end of the quarter, entered into an agreement to issue up to 1,068,000 common shares at a price of \$16.85 per share. The financing is expected to close on May 27, 2009. The funds from the equity placement will be used to retire debt and for general working capital.

The Company is authorized to issue an unlimited number of common shares without nominal or par value. There have been no equity transactions during the past three months. Total outstanding common shares are 17,257,063 with an accounting cost of \$99,530,000.

The Company provides an option plan for its directors, officers, employees and consultants. Under the plan, the Company may grant options for up to 1,725,760 (December 31, 2008 – 1,725,760) common shares. The exercise price of each option granted equals 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, 2009 and December 31, 2008, and changes during the three month and twelve month periods ended on those dates is presented as follows:

	March 31, 2009		December 31, 2008	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of period	1,390,500	\$ 20.50	-	\$ -
Options granted	-	-	1,390,500	20.50
Outstanding at end of period	1,390,500	\$ 20.50	1,390,500	\$ 20.50
Options exercisable at end of period	-	\$ -	-	\$ -

The following table summarizes information about options outstanding at March 31, 2009:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding At 3/31/09	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 3/31/09	Weighted-Average Exercise Price
\$20.50	1,390,500	3.6 years	\$20.50	-	\$ -

No stock options were granted in either the first quarter of 2009 or 2008.

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 and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by the interim filings 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 Chief Executive Officer and Chief Financial Officer 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 has conducted a review of its ICFR, with the conclusion that as of March 31, 2009 the Company's system of ICFR as defined under NI 52-109 is adequately designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The control framework the Company used to design its ICFR was COSO. In its review, the Company identified certain material weaknesses in internal controls over financial reporting:

1. due to the limited number of staff at the Company, it is not feasible to achieve the complete segregation of incompatible duties; and
2. due to the limited number of staff, the Company relies upon third parties as participants in the Company's internal controls over financial reporting.

The Company believes these weaknesses are mitigated by: the active involvement of senior management and the board of directors in the affairs of the Company; open lines of communication within the Company; the present levels of activities and transactions within the Company being readily transparent; the thorough review of the Company's financial statements by management, the board of directors and by the Company's

auditors (annual statements only); and the establishment of a whistle-blower policy. However, these mitigating factors will not necessarily prevent a material misstatement occurring as a result of the aforesaid weaknesses in the Company's internal controls over financial reporting. A system of internal controls over financial reporting, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the internal controls over financial reporting are met. The Company has no plans for remediating the above weaknesses.

Financial Reporting Update

In January 2009, the CICA issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. This standard is effective for the Company's fiscal periods ending on or after January 20, 2009 with retrospective application. The application of this EIC did not have a material effect on the Company's Consolidated Financial Statements.

In December 2008, the CICA issued Section 1582, "Business Combinations", which will replace former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 with earlier adoption permitted. The Company is currently evaluating the impact of this change on its Consolidated Financial Statements.

In December 2008, the CICA issued Sections 1601, "Consolidated Financial Statements", and 1602, "Non-controlling Interests", which replaces existing Section 1600. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier adoption permitted. These standards currently do not impact the Company as it has full controlling interest of all of its subsidiaries.

Recent Accounting Pronouncements

The Accounting Standards Board has confirmed the convergence of Canadian GAAP with International Financial Reporting Standards (IFRS) will be effective January 1, 2011.

The Company in the fourth quarter of 2008 commenced the process of conversion to IFRS by engaging its external auditors to perform a preliminary high-level scoping study to consider the potential impact of the implementation of IFRS on the Company. Based on the findings to date the following areas have been identified as high impact areas:

- IFRS 1 – First time adoption of IFRS
- IFRS 3 – Business combinations
- IAS 16 – Property and equipment
- IAS 36 – Impairment of assets

Medium impact areas include:

- IFRS 6 – Exploration and evaluation of mineral resources
- IFRS 2 – Share-based payments
- IAS 1 – Presentation of financial statements
- IAS 10 – Events after the balance sheet date

- IAS 12 – Income Taxes
- IAS 18 – Revenues
- IAS 23 – Borrowing costs
- IAS 39 – Financial instruments, recognition and measurement
- IAS 37 – Provisions, contingent liabilities and contingent assets

The impact of IFRS will be significant; however the Company has always maintained an accounting policy of successful efforts for property and equipment that will result in a major reduction in the level of conversion compared to most oil and gas companies who used the full cost accounting policy.

Commencing in the second quarter of 2009, the Company will be completing a more detailed analysis of the above areas and making decisions in respect of accounting policies that will be followed in respect of the above identified areas, documenting those policies, and calculating the impact of those policies on existing financial statement items and presentations. Key information will be disclosed as it becomes available during the transition period.

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. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgements 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 financial statements with management and has reported to the Board of Directors. The Board of Directors has approved the financial statements as presented in this interim report.

CONSOLIDATED BALANCE SHEETS

As at March 31, 2009 and December 31, 2008

(unaudited)

(\$ 000)	2009	2008
Assets		
Current		
Restricted term deposit	-	20
Accounts receivable (Note 11)	10,657	11,753
Crude oil inventory	543	845
Prepaid expenses	3,654	4,222
Future income tax asset (Note 8)	6,841	2,669
Investments in related party (Note 3)	2,338	2,131
	24,033	21,640
Restricted cash (Note 4)	1,257	1,252
Future income tax asset (Note 8)	80,157	85,416
Property and Equipment (Note 5)		
Petroleum and natural gas properties and related equipment	235,306	232,685
Accumulated depletion and depreciation	(80,021)	(75,692)
Net Property and Equipment	155,285	156,993
	260,732	265,301
Liabilities		
Current		
Accounts payable and accrued liabilities	11,034	23,888
Due to related parties (Note 6)	22,000	6,000
Deferred credit (Note 8)	5,908	2,305
Short-term debt (Note 7)	-	13,325
	38,942	45,518
Long-term bank debt (Note 7)	89,383	79,910
Deferred credit (Note 8)	57,533	64,758
Asset retirement obligations	18,497	18,338
	204,355	208,524
Shareholders' Equity (Note 9)		
Share capital	99,530	99,530
Contributed surplus	2,771	2,542
	102,301	102,072
Deficit	(47,525)	(46,715)
Accumulated other comprehensive income (Note 10)	1,601	1,420
	(45,924)	(45,295)
Total Shareholders' Equity	56,377	56,777
	260,732	265,301

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the Three Months Ended March 31 (unaudited)		
(\$ 000)	2009	2008
Unitholders' equity, beginning of period	-	44,218
Shareholders' equity, beginning of period	56,777	-
Comprehensive income for the period	6,274	10,975
Net capital contributions	-	280
Stock-based compensation	229	283
Distributions declared	-	(7,620)
Unitholders' Equity, End of Period	63,280	48,136
Conversion of the trust to a corporation (Note 1)	-	-
Dividends declared	(6,903)	-
Shareholders' Equity, End of Period	56,377	-

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

For the Three Months Ended March 31 (unaudited)		
(\$ 000, except \$ per Share)	2009	2008
Revenue		
Oil and gas sales	19,300	31,860
Gain (loss) on risk management contracts - cash	-	(1,367)
Gain (loss) on risk management contracts - non-cash	-	(2,389)
Royalties	(1,865)	(4,344)
Interest and other	66	13
	17,501	23,773
Expenses		
Production costs	7,038	6,317
General and administrative	939	877
Interest on debt	826	799
Stock based compensation	229	283
Depletion, depreciation and accretion	4,614	3,494
	13,646	11,770
Earnings Before Taxes	3,855	12,003
Taxes (Recovery)		
Current	322	111
Future	(2,560)	1,088
	(2,238)	1,199
Net Earnings for the Period	6,093	10,804
Deficit, beginning of period	(46,715)	(51,543)
Dividends declared	(6,903)	-
Distributions declared	-	(7,620)
Deficit, End of Period	(47,525)	(48,359)
Net Earnings Per Share - Basic and Diluted (Note 9)	0.35	0.64

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three Months Ended March 31 (unaudited) (\$ 000, except \$ per Share)	2009	2008
Net Earnings for the Period	6,093	10,804
Other Comprehensive Income		
Unrealized gains and losses on investments (net of income taxes of 2009 - \$26, 2008 - \$47)	181	171
Other Comprehensive Income	181	171
Comprehensive Income	6,274	10,975
Comprehensive Income Per Share - Basic and Diluted (Note 9)	0.36	0.65

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31 (unaudited)		
(\$ 000)	2009	2008
Operating Activities		
Net earnings for the period	6,093	10,804
Items not affecting cash		
(Gain) loss on risk management contracts - non-cash	-	2,389
Stock based compensation	229	283
Depletion, depreciation and accretion	4,614	3,494
Future income taxes	(2,560)	1,088
	8,376	18,058
Change in non-cash working capital		
Accounts receivable	1,096	(3,201)
Crude oil inventory	316	142
Prepaid expenses	568	69
Accounts payable and accrued liabilities	(3,653)	2,871
Asset retirement obligations settled	(71)	(1,727)
	(1,744)	(1,846)
Cash Provided by Operating Activities	6,632	16,212
Financing Activities		
Increase (decrease) in debt	(3,852)	1,491
Due to related parties	16,000	-
Stock option proceeds	-	280
Dividends	(6,903)	-
Unit distributions	-	(11,344)
Cash Provided by (Used in) Financing Activities	5,245	(9,573)
Investing Activities		
Property and equipment expenditures	(2,696)	(6,421)
Restricted term deposit	20	-
Change in non-cash working capital		
Accounts payable and accrued liabilities	(9,201)	(218)
Cash Used in Investing Activities	(11,877)	(6,639)
Net Cash Inflow	-	-
Cash, beginning of period	-	-
Cash, End of Period	-	-
Cash Interest Paid	826	799
Cash Taxes Paid	161	278

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Periods Ended March 31, 2009 and 2008 (unaudited)

1. CHANGE OF ORGANIZATION

On November 12, 2008, Bonterra Energy Income Trust (the "Trust") converted to Bonterra Oil & Gas Ltd. (the "Company") through a reverse takeover by the Trust of SRX Post Holdings Inc. (SRX). In conjunction with the reorganization, the Trust acquired all of the issued and outstanding shares of Silverwing Energy Inc. (Silverwing). Concurrently, all of the Company's subsidiaries, including Silverwing were amalgamated into Bonterra Energy Corp.

Prior to the Arrangement on November 12, 2008, the consolidated financial statements included the accounts of the Trust and its subsidiaries. After giving effect to the Arrangement, the consolidated financial statements have been prepared on a continuity of interests basis, which recognizes Bonterra Oil & Gas Ltd. as the successor entity to the Trust. The continuity of interest basis requires that the 2008 comparative consolidated financial statement figures presented prior to the reorganization are those previously presented by the Trust.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and methods of application followed in the preparation of the interim consolidated financial statements are the same as those followed in the preparation of Bonterra Oil & Gas Ltd.'s (the Company or Bonterra) 2008 annual consolidated financial statements except as described below. These interim consolidated financial statements do not include all disclosures required for annual consolidated financial statements. The interim consolidated financial statements as presented should be read in conjunction with the 2008 annual consolidated financial statements.

In February 2008, the Canadian Institute of Chartered Accountants (CICA) issued Section 3064, "Goodwill and intangible assets", replacing Section 3062, "Goodwill and other intangible assets" and Section 3450, "Research and development costs". Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section is applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company adopted the new standards for its fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-orientated enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The adoption of this Standard did not have an impact on the Consolidated Financial Statements.

In January 2009, the CICA issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. This standard is effective for the Company's fiscal periods ending on or after January 20, 2009 with retrospective application. The application of this EIC did not have a material effect on the Company's Consolidated Financial Statements.

In December 2008, the CICA issued Section 1582, "Business Combinations", which will replace former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies prospectively to business

combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 with earlier adoption permitted. The Company is currently evaluating the impact of this change on its Consolidated Financial Statements.

In December 2008, the CICA issued Sections 1601, "Consolidated Financial Statements", and 1602, "Non-controlling Interests", which replaces existing Section 1600. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier adoption permitted. These standards currently do not impact the Company as it has full controlling interest of all of its subsidiaries.

Recent Accounting Pronouncements

The Accounting Standards Board has confirmed that the convergence of Canadian GAAP with International Financial Reporting Standards (IFRS) will be effective January 1, 2011. The Company has performed an initial scoping process in order to ensure successful implementation within the required timeframe. The impact on the Company's consolidated financial statements is not reasonably determinable at this time. Key information will be disclosed as it becomes available during the transition period.

3. INVESTMENT IN RELATED PARTY

The investment consists of 689,682 (December 31, 2008 – 689,682) common shares in Comaplex Minerals Corp. (Comaplex), a company with common directors and management with the Company and its subsidiaries. The investment is recorded at fair market value. The common shares trade on the Toronto Stock Exchange under the symbol CMF. The investment represents less than one and a half percent ownership in the outstanding shares of Comaplex.

4. RESTRICTED CASH

An escrow account was held by Silverwing prior to its acquisition by the Company. The escrow account was created to support eligible expenditures related to a farm-in agreement. The Company may access the funds upon completion and tie-in or abandonment and reclamation of 22 wells. The funds are administered by the farmers' legal counsel. The funds in the escrow account are invested in interest bearing term deposits.

5. PROPERTY AND EQUIPMENT

(\$ 000)	March 31, 2009		December 31, 2008	
	Cost	Accumulated Depletion and Depreciation	Cost	Accumulated Depletion and Depreciation
Undeveloped land	2,013	-	2,295	-
Petroleum and natural gas properties and related equipment	232,007	79,136	229,136	74,844
Furniture, equipment and other	1,286	885	1,254	848
	235,306	80,021	232,685	75,692

6. DUE TO RELATED PARTIES

As of March 31, 2009, the Company's CEO and major shareholder has loaned the Company \$10,000,000 (December 31, 2008 - \$6,000,000). The loan is unsecured, bears interest at Canadian chartered bank prime less one half of a percent and has no set repayment terms but is payable on demand. However, the loan can only be repaid should the Company have sufficient available borrowing limits under the Company's credit facility. Effective May 1, 2009 the interest rate was increased to Canadian chartered bank prime. The interest rate was increased to keep the loan rate at approximately two percent below the Company's bank financing rate. Interest paid on this loan during the first quarter of 2009 was \$48,000.

As of March 31, 2009, Comaplex has loaned the Company \$12,000,000 (December 31, 2008 - Nil). The loan is unsecured, bears interest at Canadian chartered bank prime plus one quarter of a percent and has no set repayment terms but is payable on demand. However, 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 during the first quarter of 2009 was \$3,000.

Please refer to note 11 for additional related party transactions.

7. BANK DEBT

As of March 31, 2009 and December 31, 2008, the Company has a bank facility consisting of an \$80,000,000 syndicated revolving credit facility and a \$20,000,000 non-syndicated demand credit facility. Amounts drawn under these facilities at March 31, 2009 were \$89,383,000 (December 31, 2008 - \$93,235,000). The interest rates on the outstanding debt as of March 31, 2009 were 3.35 percent and 2.50 percent on the Company's Canadian prime rate loan (short-term debt) and Bankers' Acceptances (long-term debt), respectively. The terms of the syndicated revolving credit facility provided that the loan was revolving to May 30, 2010 and is subject to annual review. The revolving credit facility had no fixed payment requirements. The terms of the non-syndicated demand credit facility provided that the loan is due on demand and is subject to annual review and has no fixed repayment terms.

Effective April 29, 2009, the Company entered into a new bank facility under similar terms and conditions. The new facility consists of a \$100,000,000 syndicated revolving credit facility and a \$20,000,000 non-syndicated revolving credit facility. The terms of the new facility provides that the loan is revolving until April 28, 2011, is subject to annual review and has no fixed payment requirements.

The amount available for borrowing under the credit facilities is reduced by outstanding letters of credit. Letters of credit totaling \$85,000 were issued at March 31, 2009 (December 31, 2008 - \$525,000). Security for the credit facilities consists of various fixed and floating demand debentures totaling \$200,000,000 over all of the Company's assets, and a general security agreement with first ranking over all personal and real property.

The interest rate on the new credit facility is calculated as follows:

	Level I	Level II	Level III	Level IV	Level V
Consolidated Total Funded Debt ⁽¹⁾ to Consolidated Cash flow Ratio	Under 1.0:1	Over 1.0:1 to 1.5:1	Over 1.5:1 to 2.0:1	Over 2.0:1 to 2.5:1	Over 2.5:1
Canadian Prime Rate Plus ⁽²⁾	125	150	175	200	250
Bankers' Acceptances Rate Plus ⁽²⁾	275	300	325	350	400

⁽¹⁾ Consolidated total funded debt excludes related party amounts but includes working capital.

⁽²⁾ Numbers in table represent basis points.

Consolidated total funded debt to consolidated cash flow ratio shall be adjusted effective as of the first day of the next fiscal quarter following the end of each fiscal quarter, with each such adjustment to be effective until the next such adjustment.

The following is a list of the material covenants:

- The Company is required to not exceed \$120,000,000 in consolidated debt (includes negative working capital but excludes debt to related parties).
- Dividends paid in any quarter shall not exceed 80 percent of the average of the previous four quarters' cash flow as defined under GAAP.

8. TAXES

The Company has recorded a future income tax asset related to assets and liabilities and related tax amounts:

(\$ 000)	2009	2008
Future tax liability related to investments:	(237)	(212)
Future tax liability related to property and equipment:	(6,192)	(7,097)
Future tax asset related to asset retirement obligations:	4,653	4,593
Futures tax asset related to finance costs:	1,025	1,134
Future tax asset related to corporate tax losses and SR&ED claims:	80,908	86,998
Future Tax Asset – Long-term	80,157	85,416
Current portion of future income tax asset related to corporate tax losses and SR& ED claims:	6,841	2,669
Future Tax Asset - Current	6,841	2,669

As a result of the reorganization, the Company recorded a deferred credit relating to the difference between the future income tax asset generated on the reorganization and the amount of the cash payment made to SRX immediately before the reorganization. This credit is being amortized on the same basis as the related future income tax asset.

A reconciliation of the deferred credit is as follows:

(\$ 000)	
Amount recorded on reorganization	71,303
Amortized in 2008	(4,240)
Balance as of December 31, 2008	67,063
Amortized in first quarter of 2009	(3,622)
Balance as of March 31, 2009	63,441
Current portion	5,908
Long-term portion	57,533
	63,441

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

(\$ 000)	Rate of Utilization (%)	Amount
Undepreciated capital costs	20-100	24,410
Eligible capital expenditures	7	1,837
Share issue costs	20	4,112
Canadian oil and gas property expenditures	10	24,749
Canadian development expenditures	30	51,858
Canadian exploration expenditures	100	11,279
SR&ED expenditures	100	80,357
Income tax losses carried forward ⁽¹⁾	100	263,482
		462,084

⁽¹⁾ Income tax losses carried forward expire in the following years; 2014 - \$1,069,000, 2025 - \$3,179,000, 2026 - \$92,857,000, 2027 - \$116,787,000, 2028 - \$40,750,000, 2029 - \$8,840,000.

The Company has \$27,670,000 of investment tax credits (ITC) that expire in the following years; 2009 - \$3,469,000, 2010 - \$3,059,000, 2011 - \$4,667,000, 2012 - \$3,909,000, 2013 - \$3,155,000, 2014 - \$1,995,000, 2015 - \$2,257,000, 2016 - \$2,405,000, 2017 - \$2,009,000, 2018 - \$745,000.

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 future income tax asset.

9. SHAREHOLDERS' EQUITY

Authorized

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

Issued	Number	Amount (\$ 000)
Common Shares		
Balance, January 1, 2009	17,257,603	99,530
Balance, March 31, 2009	17,257,603	99,530

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 number of common shares (2008 numbers based on units) used to calculate diluted net earnings per share (2008 earnings per unit) for the three month periods ended March 31 is as follows:

	2009	2008
Basic shares/units outstanding	17,257,603	16,938,333
Dilutive effect of share/unit options	-	19,153
Diluted shares/units outstanding	17,257,603	16,957,486

A summary of the changes of the Company's contributed surplus is presented below:

Contributed surplus (\$ 000)	2009	2008
Balance, beginning of period	2,542	2,140
Stock-based compensation expensed (non-cash)	229	283
Stock-based options exercised (non-cash)	-	(30)
Balance, end of period	2,771	2,393

The deficit balance is composed of the following items:

(\$ 000)	March 31, 2009	March 31, 2008
Accumulated earnings	214,275	163,560
Accumulated cash dividends/distributions	(261,800)	(211,919)
Deficit	(47,525)	(48,359)

The Company provides an option plan for its directors, officers, employees and consultants. Under the plan, the Company may grant options for up to 1,725,760 (December 31, 2008 – 1,725,760) common shares. The exercise price of each option granted equals 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, 2009 and December 31, 2008, and changes during the three month and twelve month periods ended on those dates is presented below:

	March 31, 2009		December 31, 2008	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of period	1,390,500	\$ 20.50	-	\$ -
Options granted	-	-	1,390,500	20.50
Outstanding at end of period	1,390,500	\$ 20.50	1,390,500	\$ 20.50
Options exercisable at end of period	-	\$ -	-	\$ -

The following table summarizes information about options outstanding at March 31, 2009:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding At 3/31/09	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 3/31/09	Weighted-Average Exercise Price
\$20.50	1,390,500	3.6 years	\$20.50	-	\$ -

No stock options were granted in either the first quarter of 2009 or 2008.

10. ACCUMULATED OTHER COMPREHENSIVE INCOME

(\$ 000)	January 1, 2009	Other Comprehensive Income	March 31, 2009
Unrealized gains on available-for-sale financial assets (net of tax)	1,420	181	1,601

(\$ 000)	January 1, 2008	Other Comprehensive Income (Loss)	December 31, 2008
Unrealized gains (losses) on available-for-sale financial assets (net of tax)	3,031	(1,611)	1,420

11. RELATED PARTY TRANSACTIONS

The Company received a management fee from Comaplex of \$82,500 (2008 - \$82,500) for management services and office administration. This fee has been included as a recovery in general and administrative expenses. As at March 31, 2009, the Company had an account receivable from Comaplex of \$60,000 (December 31, 2008 - \$56,000).

The Company received a management fee from Pine Cliff Energy Ltd. (Pine Cliff) of \$30,000 (2008 - \$59,400) for management services and office administration. This fee has been included as a recovery in general and administrative expenses. As at March 31, 2009 the Company had an account receivable from Pine Cliff of \$Nil (December 31, 2008 - \$1,000).

12. FINANCIAL AND CAPITAL RISK MANAGEMENT

Financial Risk Factors

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

- Receivables
- Payables
- Common share investments
- Due to related parties
- Bank loans
- Derivatives

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

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

The Company enters into various risk management contracts in accordance with Board approval to manage the Company's exposure to commodity price fluctuations. Currently no risk management agreements are in place in respect of interest rate risk. The Company does not speculatively trade in risk management contracts. The Company's risk management contracts are entered into to manage the risks relating to commodity prices from its business activities.

Capital Risk Management

The Company's objectives when managing capital 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 an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends, the percentage of return of capital or issue new shares.

The Company monitors capital on the basis of the ratio of debt to cash flow. This ratio is calculated using each quarter end net debt (total debt adjusted for working capital) and divided by the preceding twelve months cash flow.

The combination of the Trust reorganization and the acquisition of Silverwing Energy Inc. in 2008 resulted in the Company increasing its debt, including negative working capital, to approximately \$105,000,000 resulting in an increased debt to cash flow ratio. The Company believes that a debt level of approximately one and a half year's cash flow is an appropriate level to allow it to take advantage in the future of either acquisition opportunities or to provide flexibility to develop its infill oil, shallow gas and coalbed methane potential.

The following section (a) of this note provides a summary of the Company's underlying economic positions as represented by the carrying values, fair values and contractual face values of the Company's financial assets and financial liabilities. The Company's debt to cash flow is also provided.

The following 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.

The following section (c) provides details of the Company's risk management contracts that are used for financial risk management.

a) Financial assets, financial liabilities and debt ratio

The carrying amounts, fair value and face values of the Company's financial assets and liabilities are shown in Table 1.

Table 1

(\$ 000)	As at March 31, 2009			As at December 31, 2008		
	Carrying Value	Fair Value	Face Value	Carrying Value	Fair Value	Face Value
Financial assets						
Restricted term deposit	-	-	-	20	20	20
Accounts receivable	10,657	10,657	10,774	11,753	11,753	11,838
Investments in related party	2,338	2,338	N/A	2,131	2,131	N/A
Financial liabilities						
Accounts payable and accrued liabilities	11,034	11,034	11,034	23,888	23,888	23,888
Due to related parties	22,000	22,000	22,000	6,000	6,000	6,000
Short-term debt	-	-	-	13,325	13,325	13,325
Long-term debt	89,383	89,383	89,383	79,910	79,910	79,910

The net debt and cash flow figures as of March 31, 2009 are presented in Table 2.

(\$ 000)	March 31, 2009
Long-term debt	89,383
Accounts payable and accrued liabilities	11,034
Due to related parties	22,000
Current assets ⁽¹⁾	(17,192)
Net Debt	105,225
Cash flow from operations ⁽²⁾	59,990
Net debt to cash flow from operations	1.75

⁽¹⁾ Current assets include accounts receivable, crude oil inventory, prepaid expenses and investment in related party.

⁽²⁾ Cash flow from operations includes net earnings over the past twelve months less adjustment for non-cash (gain) loss on risk management contracts, stock-based compensation, depletion, depreciation and accretion, future income taxes, changes in non-cash working capital items and asset retirement obligations settled.

b) Risks and mitigations

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 had used various risk management contracts to set price parameters for a portion of its production. Management, in agreement with the Board of Directors, decided that at least in the near term it will discontinue the use of commodity price agreements. The Company will assume full risk in respect of commodity prices.

Sensitivity Analysis

Commodity prices have fluctuated significantly over the recent past. The following table updates the annual cash flow sensitivity for movements in the commodity prices of \$1 U.S. WTI for crude oil, \$0.10 per MCF AECO for natural gas and \$0.01 fluctuation in exchange rates.

	Cash Flow
U.S. \$1.00 per barrel	\$ 870,000
Canadian \$0.10 per MCF	\$ 289,000
Change of Canadian \$0.01/U.S. \$ exchange rate	\$ 593,000

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 bank borrowings and related party debts which have variable interest rates which gives rise to a cash flow interest rate risk.

The Company's debt consists of a \$120,000,000 revolving line and \$22,000,000 due to related parties. The borrowings under these facilities are at bank prime plus or minus various percentages as well as by means of bankers' acceptances (BA's). The Company manages its exposure to interest rate risk through entering into various term lengths on its BA's 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. No income tax effect has been calculated as the Company is expected to be non-taxable until January 1, 2015.

A one percent change in the Canadian prime rate would increase or decrease cash flow by \$1,114,000.

Foreign exchange risk

The Company has no foreign operations and currently sells all its product sales in Canadian currency. The Company however is exposed to currency risk in that crude oil is priced in U.S. currency then converted to Canadian currency. The Company currently has no outstanding risk management agreements. Management, in agreement with the Board of Directors, recently decided that at least in the near term it will discontinue the use of commodity price agreements. The Company will assume full risk in respect of foreign exchange fluctuations.

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 the carrying value of all financial assets included on the balance sheet. 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;
- Agreements for product sales are primarily on 30 day renewal terms; and
- Investments are generally only with companies that have common management with the Company.

Of the accounts receivable balance at March 31, 2009 (\$10,657,000) and December 31, 2008 (\$11,753,000), over 83 (2008 – 82) percent relates to product sales with international oil and gas companies or tax receivables from the Canadian Government.

The Company assesses quarterly if there has been any impairment of the financial assets of the Company. During the quarter ended March 31, 2009, there was no impairment provision required on any of the financial assets of the Company due to historical success of collecting receivables. The Company does have a 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.

At March 31, 2009, approximately \$225,000 or 2.1 percent of the Company's total accounts receivable are aged over 120 days and considered past due. 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 net paying when the accounts are with joint venture partners. Should the Company determine that the ultimate collection of a receivable is in doubt, it will provide the necessary provision in its allowance for doubtful accounts with a corresponding charge to earnings. If the Company subsequently determines an account is uncollectable, the account is written off with a corresponding charge to the allowance account. The Company's allowance for doubtful accounts balance at March 31, 2009 is \$117,000 (December 31, 2008 - \$85,000). There were no accounts written off during the period.

The carrying value of accounts receivable approximates their fair value due to the relatively short periods to maturity on this instrument. The maximum exposure to credit risk is represented by the carrying amount on the balance sheet. There are no material financial assets that the Company considers past due.

Liquidity risk

Liquidity risk includes the risk that, as a result of Company's operational liquidity requirements:

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will not have sufficient funds to continue with its dividends;
- The Company will be forced to sell assets at a value which is less than what they are worth; or
- The Company may be unable to settle or recover a financial asset at all.

To help reduce these risks the Company:

- Maintains a portfolio of high-quality, long reserve life oil and gas assets.

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

(\$ 000)	Recognized on Financial Statements	Payments Due by Period		
		Less than 1 year	2-3 years	4-5 years
Accounts payable and accrued liabilities	Yes - Liability	11,034	-	-
Due to related parties	Yes - Liability	22,000	-	-
Long-term bank debt	Yes - Liability	-	89,383	-
Office leases	No	593	1,249	918
Total		33,627	90,632	918

c) Risk management contracts

The Company currently has no outstanding risk management contracts:

13. SUBSEQUENT EVENT – DIVIDENDS

Subsequent to March 31, 2009, the Company declared a dividend of \$0.12 per common share payable on April 30, 2009 to shareholders of record on April 15, 2009 and a dividend of \$0.12 per common share payable on May 29, 2009 to shareholders of record on May 15, 2009.

14. SUBSEQUENT EVENT – EQUITY PLACEMENT

The Company, subsequent to the end of the quarter, entered into an agreement to issue up to 1,068,000 common shares at a price of \$16.85 per share. The financing is expected to close on May 27, 2009.

CORPORATE INFORMATION

Board of Directors

G.J. Drummond, Nassau, Bahamas
G.F. Fink, Calgary, Alberta
C.R. Jonsson, Vancouver, British Columbia
F.W. Woodward, Calgary, Alberta

Officers

G.F. Fink – Chief Executive Officer
R.M. Jarock – President and Chief Operating Officer
G.E. Schultz – Vice President, Finance, Chief Financial Officer and Secretary

Registrar & Transfer Agent

Olympia Trust Company, Calgary, Alberta

Auditors

Deloitte & Touche LLP, Calgary, Alberta

Solicitors

Borden Ladner Gervais LLP, Calgary, Alberta

Bankers

The Royal Bank of Canada, Calgary, Alberta
CIBC, Calgary, Alberta

Stock Listing

The Toronto Stock Exchange
Trading Symbol: BNE

Head Office

901, 1015 – 4th Street SW
Calgary, Alberta T2R 1J4
PH 403.262.5307
FX 403.265.7488

Website

www.bonterraenergy.com