Interim Report

Bonterra
Energy Income Trust

For the Six Months
Ended June 30, 2005

Highlights

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	**2005**	2004
FINANCIAL				
Revenue – oil and gas				
(net of royalties)	**$ 15,223,000**	$ 11,223,000	**$ 29,934,000**	$ 22,010,000
Funds Flow From Operations [1]	**$ 10,167,000**	$ 6,936,000	**$ 19,881,000**	$ 13,429,000
Per Unit - Basic	**$ 0.62**	$ 0.51	**$ 1.22**	$ 0.99
Per Unit - Diluted	**$ 0.61**	$ 0.50	**$ 1.20**	$ 0.97
Net Earnings	**$ 7,115,000**	$ 4,336,000	**$ 14,241,000**	$ 8,584,000
Per Unit – Basic	**$ 0.44**	$ 0.32	**$ 0.87**	$ 0.63
Per Unit - Diluted	**$ 0.43**	$ 0.31	**$ 0.86**	$ 0.62
Cash Distributions Per Unit	**$ 0.55**	$ 0.43	**$ 1.09**	$ 0.82
Capital Expenditures and				
Acquisitions [2]	**$ 678,000**	$ 832,000	**$ 36,605,000**	$ 3,429,000
Total Assets			**$ 99,914,000**	$ 79,804,000
Working Capital Deficiency [3]			**$ 11,379,000**	$ 2,781,000
Unitholders' Equity			**$ 60,467,000**	$ 57,987,000
OPERATIONS				
Oil and NGL's - Barrels Per Day	**2,635**	2,349	**2,679**	2,375
Natural Gas - MCF Per Day	**5,462**	4,643	**5,555**	4,642

1) Funds flow from operations is not a recognized measure under GAAP. Management believes that in addition to net earnings, funds flow from operations is a useful supplemental measure as it demonstrates the Trust's ability to generate the cash necessary to make trust distributions, repay debt or fund future growth through capital investment. Investors are cautioned, however, that this measure should not be construed as an indication of the Trust's performance. The Trust's method of calculating this measure may differ from other issuers and accordingly, it may not be comparable to that used by other issuers. For these purposes, the Trust defines funds flow from operations as funds provided by operations before changes in non-cash operating working capital items excluding gain on sale of property.

(2) Capital expenditures and acquisitions include the purchase of Novitas Energy Ltd. (Novitas) on January 7, 2005. The Trust issued 1,335,753 units at a value of $25 per unit plus paid $769,000 in cash for all of the outstanding common shares of Novitas. For accounting purposes the transaction was recorded at the cost of the Novitas' assets and liabilities due to Novitas being considered a related party to the Trust.

3) Includes 100 percent of debt.

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Management's Discussion and Analysis

The following report dated August 2, 2005 is a review of the operations, current financial position and outlook for Bonterra Energy Income Trust and should be read in conjunction with the unaudited financial statements for the six months ended June 30, 2005, including the notes related thereto, and the audited financial statements for the fiscal year ended December 31, 2004, together with the notes related thereto.

General

The Trust is pleased with most aspects of its operations, with the exception of its production volumes for the first six months of 2005. As outlined in the preceding "Highlights" section, revenue, funds flow from operations, net earnings, cash distributions and production are substantially higher on a gross and per unit basis over the comparable 2004 period. However, production volumes for the first six months are below expectations. Road bans that lasted from mid February to mid June and heavy rains thereafter in Western Canada prevented Bonterra and most other oil and gas producers from meeting their production objectives. During this period Bonterra was not able to repair existing producing wells in a timely manner if they had mechanical problems, was not able to commence its planned drill programs or complete and tie-in new wells that had been drilled.

Management is pleased to report, however, that since the middle of July the Trust has been able to proceed with its operational maintenance, well tie-ins, and shallow gas drilling programs on an aggressive basis. The Trust anticipates commencing its infill Cardium drill program by mid August. These events should have a material impact on production volumes by year end.

Financial and Operational Discussion

Production

Average daily production volume for the six months ended June 30, 2005 was 3,605 barrels of oil equivalent (BOE's) per day. BOE's 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 consists of 2,679 barrels per day of crude oil and natural gas liquids and 5,555 MCF per day of natural gas. Bonterra's 2004 first six months average production was 3,149 BOE's per day consisting of 2,375 barrels per day of crude oil and natural gas liquids and 4,642 MCF per day of natural gas.

The Trust completed its acquisition of Novitas Energy Ltd. (Novitas) on January 7, 2005. The acquisition added approximately 535 BOE's per day. The Trust, due to weather and infrastructure constraints, was only able to tie-in three of the five oil wells drilled in the fourth quarter of 2004. Also, due to weather conditions, production from these wells had not been continuous until additional modifications were completed in late July. Subsequent to June 30, 2005, the fourth well has been completed and tied-in to pipeline facilities. Continued wet surface lease conditions have prevented the tie-in of the fifth well.

Of the five shallow gas wells drilled in the fourth quarter of 2004, only one has been tied-in and on production as of the end of the first half of 2005. The remaining four wells are coal-bed methane (CBM) wells. Continued regulatory restrictions regarding CBM wells have prevented completion and tie-in of these four. The Trust is working on resolving all regulatory issues so that the CBM wells can be completed and on production by the end of the third quarter of 2005.

Production declined by approximately 120 BOE's per day (3.3 percent) Q2 over Q1 due to weather problems which prohibited regular maintenance programs as well as delaying the Trust's first and second quarter drill programs. Road bans were issued in mid February and were not lifted until mid June and thereafter heavy rains prevented the commencement of maintenance and drilling programs until mid July. Subsequent to June 30, 2005 the Trust was able to drill five shallow natural gas wells prior to the date of this report. It is anticipated that completion and tie-in of these wells will be completed in the third quarter. The Trust's Cardium infill drilling is anticipated to commence in mid August after delays due to weather conditions and in obtaining a drilling rig. Please refer to the Liquidity and Capital Resources section for further discussion on the Trust's 2005 drill program.

<u>Revenue</u>

Net revenue from petroleum and natural gas sales was $29,934,000 (2004 -

$22,010,000). The increase in net revenue over the 2004 first half was primarily due to higher commodity prices and additional production from the Novitas acquisition. The average price received for crude oil and natural gas liquids during the first six months of 2005 was $53.85 per barrel and $7.28 per MCF for natural gas compared to $43.19 per barrel and $6.86 per MCF in the corresponding 2004 period after adjustments for hedging losses.

The $512,000 increase in net revenue over the first quarter net revenue of $14,711,000 was primarily due to increased commodity prices to $55.37 (first quarter $52.35) per barrel for crude oil and natural gas liquids and $7.59 (first quarter $6.98) per MCF for natural gas.

Although the Trust received higher U.S. WTI oil prices and U.S. Nymex natural gas prices in 2005 than in 2004, the increases were partially offset by the rising Canadian dollar. The rising Canadian dollar negatively impacted the 2005 first six months compared to the 2004 first six months funds flow from operations by approximately 14 cents per unit and approximately 13 cents per unit on net earnings.

Gross revenue has been reduced by $1,584,000 (2004 - $1,089,000) due to lower prices received as a result of price hedging. The Trust will continue to assess hedging future production to assist in managing its funds flow. The Trust continues to follow the policy of protecting production with high operating costs with hedges that provide a significant level of profitability and also to provide for a reasonable amount of cash flow protection for development projects. The Trust will however maintain a policy of not hedging more than 50 percent of production to allow it to benefit from any price movements in either crude oil or natural gas. Kindly refer to Note 8 to the attached interim financial statements for details. As at June 30, 2005 the mark to market value of the outstanding commodity hedging transactions was a net liability of $3,150,000.

Royalties

Royalties paid by the Trust consist primarily of Crown royalties paid to the Provinces of Alberta and Saskatchewan. During the first six months of 2005 the Trust paid $2,762,000 (2004 - $2,014,000) in Crown royalties and $856,000 (2004 - $543,000) in freehold royalties, gross overriding royalties and net carried interests. The majority of the Trust's wells are low productivity wells and therefore have low Crown royalty rates. The Trust's average Crown royalty rate is approximately eight percent (2004 – eight percent) and approximately two percent (2004 – two percent) for other royalties before hedging adjustments. The Trust is eligible for Alberta Crown Royalty rebates for Alberta production from all wells that it drilled on Crown lands and from certain purchased wells.

Production Costs

Production costs for the six months ended June 30, 2005 were $9,624,000 compared to $7,617,000 for the six months ended June 30, 2004. On a BOE basis, production costs averaged $14.75 in 2005 verses $13.29 in the corresponding 2004 period. The increase in total production costs is mainly attributable to the Novitas acquisition, a pipeline spill that occurred in March, and settlement of 2000 to 2003 natural gas processing charges with the operator of several of the Trust's natural gas processing plants. The pipeline spill added approximately $0.15 per BOE and the process adjustment of approximately $600,000 resulted in a further increase of $0.92 per BOE in average operating costs in the first half of 2005. Continued increases in well service costs have resulted in the balance of the cost increase.

The Trust'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. Production costs in the $13 to $14 per BOE range are expected. As the Trust develops its shallow natural gas potential and further develops its infill Cardium program, the average costs per BOE should decline. When calculating cash net backs the high production costs for the Trust are substantially offset by low royalty rates of approximately 10 percent, which are much lower than industry average for conventional production, and results in high cash net backs on a combined basis. The 2005 cash netback is $29.79 compared to $23.30 for the first six months of 2004.

Gain on Sale of Property

On April 8, 2005, Pine Cliff Energy Ltd.'s (Pine Cliff) (former subsidiary with common directors and management) rights offering closed with over 97 percent of former Novitas shareholders exercising their rights to acquire common shares in Pine Cliff for $0.15 per common share. As part of the rights offering, the Trust agreed to sell to Pine Cliff effective January 1, 2005 (closing April 9, 2005) approximately 18 BOE per day of production and some exploration lands formally held by Novitas for proceeds of $1,000,000. As a result of this sale the Trust reported a gain on sale of property of $225,000. The balance of the gain ($38,000) relates to a disposition of an interest in a non-core area property.

General and Administrative Expenses

General and administrative expenses were $1,143,000 in the first half of 2005 compared to $752,000 in the six months ended June 30, 2004. Costs on a BOE bases increased to $1.75 per BOE in the first half of 2005 from $1.31 per BOE in the first half of 2004. The cost increase was primarily due to increases in employee compensation and costs associated with continuous disclosure requirements.

The Trust received a management fee from Comaplex Minerals Corp. (Comaplex), a company with common directors and management, of $120,000 (2004 - $120,000) for management services and office administration. This recovery has been offset against the Trust's general and administrative expense.

The Trust also received a management fee from Pine Cliff of $60,000 for management services and office administration. This recovery has also been offset against the Trust's general and administrative expense.

Interest Expense

Interest expense decreased to $288,000 for the six months ended June 30, 2005 compared to $407,000 for the six months ended June 30, 2004. Decreased average debt level was the primary factor in the decrease in interest expense. The increase of $36,000 in interest expense in the second quarter over the first quarter was primarily due to a higher average debt balance in the second quarter as interest rates were unchanged. The Trust's total debt as a percentage of annualized second quarter funds flow was approximately four months which is significantly less than the Trust's goal of one year.

The Trust's bank loan increased by approximately $11 million from December 31, 2004 compared to June 30, 2005. The increase is due to the acquisition of Novitas ($769,000 for shares and the take over of a bank loan of $4.6 million) and the payment of costs (principally in February 2005) for the 2004 fourth quarter drilling program. Offsetting the increases were additional unit option proceeds of $1,310,000 and an $850,000 refund of the Trust's abandonment deposit from the Alberta Energy and Utilities Board. The Trust continues to experience an approximate four percent average borrowing cost on its outstanding debt.

Depletion, Depreciation and Accretion

Provision for depletion, depreciation and accretion was $4,828,000 and $4,005,000 for the six-month periods ending June 30, 2005 and June 30, 2004, respectively. The increase was primarily due to depletion resulting from the Novitas acquisition as well as production from newly completed infill Cardium wells. The Trust's production declines (discussed above) were primarily in the Dodsland area of Saskatchewan (135 BOE per day) and the Harmattan area of Alberta (10 BOE per day). These properties have very nominal fixed asset costs associated with these properties due to low cost of acquisition and the extended length of time owned by the Trust. Production increases were experienced in the Pembina area of Alberta due to the infill drilling program. The Pembina area contains the vast majority of the Trust's capital costs and the increased production levels in this area has resulted in increased depletion costs despite the overall production decline. This is the primary reason for the increase of $98,000 in Q2 over Q1 depletion, depreciation and accretion costs.

Income Taxes

Taxable income earned within the Trust is required to be allocated to its Unitholders and as such the Trust will not incur any current taxes. However, the Trust operates its oil and gas interests through its 100 percent owned subsidiaries, Bonterra Energy Corp. (Bonterra Corp.), Comstate Resources Ltd. (Comstate Ltd.) and Novitas, and these corporations may periodically be taxable. These corporations pay the majority of their income to the Trust through interest and royalty payments which are deductible for income tax purposes. For the taxation periods ending prior to 2004 Bonterra Corp. and Comstate Ltd. both paid to the Trust sufficient royalty and interest payments to eliminate all their taxable income. During 2004, due to timing of capital expenditures and other funds flow factors, Comstate Ltd. was unable to pay sufficient payments to the Trust to eliminate all of its taxable income and this resulted in approximately $560,000 of current income tax being incurred. With the completion of the 2004 program and the tax pools it generated, Comstate Ltd. was able to recover the full amount of the 2004 taxes as of the end of the 2005 second quarter.

Future tax provision relates to the future taxes that exist within Bonterra Corp., Comstate Ltd. and Novitas. The liability on the balance sheet and the corresponding income expense relates to temporary differences existing between Bonterra Corp., Comstate Ltd. and Novitas' book value of their assets and their remaining tax pools.

Net Earnings

Net earnings increased to $14,241,000 in the first half of 2005 from $8,584,000 in the corresponding 2004 period. Revenue increases due to increased commodity prices and production were the primary reasons for the net earnings increase of $5,657,000 or 65.9 percent. The Trust's quarter over quarter net earnings were unchanged with increased revenues being offset by increased unit based compensation and future income tax provisions.

Funds Flow from Operations

Funds flow from operations for the six months ending June 30, 2005 was $19,881,000 compared to $13,429,000 for the six months ended June 30, 2004. Funds flow from operations is not a recognized measure under GAAP. The Trust believes that in addition to net earnings, funds flow from operations is a useful supplemental measure as it demonstrates the Trust's ability to generate the cash necessary to make trust distributions, repay debt or fund future growth through capital investment. Investors are cautioned, however, that this measure should not be construed as an indication of the Trust's performance. The Trust's method of calculating this measure may differ from other issuers and accordingly, it may not be comparable to that used by other issuers. For these purposes, the Trust defines funds flow from operations as funds provided by operations before changes in non-cash operating working capital items excluding gain on sale of property.

The increase in funds flows was primarily due to higher commodity prices and the Novitas acquisition. As with all oil and gas producers the Trust's funds flow is highly dependent on commodity prices. International events and control of crude oil production by OPEC are likely factors that will result in 2005 commodity prices continuing high and having a positive impact on future funds flow.

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The following reconciliation compares funds flow for the first six months of 2005 and 2004 to the Trust's net earnings as calculated according to Canadian generally accepted accounting principles:

	2005	2004
Net earnings for the period	**$14,241,000**	$8,584,000
Items not affecting funds flow		
Unit based compensation	**171,000**	124,000
Depletion, depreciation and accretion	**4,828,000**	4,005,000
Future income taxes	**641,000**	716,000
Funds flow for the period	**$19,881,000**	$13,429,000

<u>Cash Netback</u>

The following table illustrates the Trust's cash netback for the six month periods ended:

$ per Barrel of Oil Equivalent (BOE)	**June 30, 2005**	June 30, 2004
Production volumes (BOE)	**652,475**	573,057
Gross production revenue	**$51.42**	$42.87
Royalties	**(5.55)**	(4.26)
Field operating	**(14.75)**	(13.29)
Field netback	**31.12**	25.32
General and Administrative	**(1.75)**	(1.31)
Interest and taxes	**0.42**	(0.71)
Cash netback	**$29.79**	$23.30

<u>Liquidity and Capital Resources</u>

The Trust, due to continued weather delays has reduced its previously announced plans to drill or recomplete 40 net Cardium infill oil and shallow natural gas (including CBM) wells in 2005 to 25 net wells. The balance of the program will roll forward into 2006. Further infill drilling to enhance crude oil production is planned in several areas where the Trust has non-operated interests. The Trust will participate with the operators of the properties on these prospects. A revised net capital cost of approximately $12,000,000 is budgeted for 2005 and will be funded from cash flow and existing lines of credit.

The Trust, through its operating subsidiaries, has a bank revolving credit facility of $36,900,000 at June 30, 2005 (December 31, 2004 - $32,000,000). The credit facilities carry an interest rate of Canadian chartered bank prime. As of June 30, 2005, the Trust had an outstanding balance under the facilities of $12,901,000 (December 31, 2004 - $3,550,000).

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The Trust is authorized to issue an unlimited number of trust units without nominal or par value. Equity transactions during the past six months are as follows:

Issued	Number	Amount
Trust Units		
Balance, January 1, 2005	14,943,405	$75,486,000
Issued pursuant to Trust's unit option plan	106,500	1,310,000
Units issued on acquisition of Novitas	1,335,753	5,681,000
Unit issue costs on acquisition of Novitas	-	(259,000)
Transfer of contributed surplus to unit capital	-	106,000
Balance, June 30, 2005	16,385,658	$82,324,000

The Trust provides an option plan for its directors, officers, employees and consultants. Under the plan, the Trust may grant options for up to 1,635,000 (December 31, 2004 – 1,323,450) trust units. The exercise price of each option granted equals the market price of the trust unit on the date of grant and the option's maximum term is five years.

A summary of the status of the Trust's unit option plan as of June 30, 2005 and December 31, 2004, and changes during the six month and twelve month periods ending on those dates is presented below:

	June 30, 2005		December 31, 2004	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of period	565,000	$11.56	937,000	$10.96
Options granted	395,000	23.35	10,000	15.60
Options exercised	(106,500)	12.30	(322,000)	10.22
Options cancelled	(44,000)	15.94	(60,000)	10.00
Outstanding at end of period	809,500	$16.98	565,000	$11.56
Options exercisable at end of period	62,500	$10.18	152,000	$11.52

The following table summarizes information about unit options outstanding at June 30, 2005:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding At 6/30/05	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable At 6/30/05	Weighted-Average Exercise Price
$9.70-$10.00	335,500	1.6 years	$ 9.99	60,500	$10.00
$15.20-$15.60	83,000	1.8 years	15.23	2,000	15.60
$23.35	391,000	3.8 years	23.35	-	-
$9.70-$23.35	809,500	2.7 years	$16.98	62,500	$10.18

The Trust records a compensation expense over the vesting period based on the fair value of options granted to employees, directors and consultants. The Trust issued on March 31, 2005, 395,000 unit options with the fair value estimated using the Black-Scholes option pricing model, assuming a weighted risk free interest rate of 3.5 percent, expected weighted average volatility of 31 percent, expected weighted average life of 2.5 years and an annual dividend rate based on the distributions paid to the Unitholders during the year.

Outlook

Management is optimistic that it will be able to drill and tie-in most of the planned net 25 wells prior to year end and this should have a significant impact on production volumes prior to year end. Negotiations between industry and the Alberta government to resolve the remaining outstanding issues concerning the exploration and development of the Ardley coals in the Pembina area of Alberta are also proceeding on a positive basis and the Trust is optimistic about being able to proceed with its gas from coals exploration prior to year end. Gas production from coals is still viewed as a resource that can have a substantial impact on natural gas production volumes for Bonterra in the future.

Additional information relating to the Trust may be found on SEDAR.COM.

For further information please visit our website at www.bonterraenergy.com.

Submitted on behalf of the Board of Directors,

George F. Fink

President, CEO and Director

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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 Trust's assets are safeguarded and to facilitate the preparation of relevant and timely information.

The Trust's auditors have not performed a review of these interim financial statements. 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.

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Bonterra Energy Income Trust

Consolidated Statements of Operations and Accumulated Earnings

(unaudited)	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	**2005**	2004
Revenue				
Oil and gas sales, net of royalties	**$ 15,223,000**	$ 11,223,000	**$ 29,934,000**	$ 22,010,000
Production costs	**(4,873,000)**	(3,894,000)	**(9,624,000)**	(7,617,000)
Gain on sale of property (Note 4)	**263,000**	–	**263,000**	–
Alberta royalty tax credits	**85,000**	51,000	**159,000**	117,000
Interest and other	**9,000**	61,000	**19,000**	79,000
	10,707,000	7,441,000	**20,751,000**	14,589,000
Expenses				
General and administrative	**589,000**	326,000	**1,143,000**	752,000
Interest on debt	**162,000**	179,000	**288,000**	407,000
Unit based compensation	**163,000**	70,000	**171,000**	124,000
Depletion, depreciation and accretion	**2,463,000**	2,002,000	**4,828,000**	4,005,000
	3,337,000	2,577,000	**6,430,000**	5,288,000
Earnings before Income Taxes	**7,330,000**	4,864,000	**14,321,000**	9,301,000
Income Taxes (Recovery)				
Current	**(211,000)**	–	**(561,000)**	1,000
Future	**426,000**	528,000	**641,000**	716,000
	215,000	528,000	**80,000**	717,000
Net Earnings for the Period	**7,115,000**	4,336,000	**14,241,000**	8,584,000
Accumulated earnings at beginning of period	**58,814,000**	35,567,000	**51,688,000**	31,319,000
Accumulated earnings at end of Period	**$ 65,929,000**	$ 39,903,000	**$ 65,929,000**	$ 39,903,000
Net Earnings per Trust Unit - Basic	**$ 0.44**	$ 0.32	**$ 0.87**	$ 0.63
Net Earnings per Trust Unit - Diluted	**$ 0.43**	$ 0.31	**$ 0.86**	$ 0.62

Bonterra Energy Income Trust

Consolidated Statements of Cash Flows

(unaudited)	Three Months Ended June 30 **2005**	2004	Six Months Ended June 30 **2005**	2004
Operating Activities				
Net earnings for the period	**$ 7,115,000**	$ 4,336,000	**$ 14,241,000**	$ 8,584,000
Items not affecting cash				
Gain on sale of property (Note 4)	**(263,000)**	–	**(263,000)**	–
Unit based compensation	**163,000**	70,000	**171,000**	124,000
Depletion, depreciation and accretion	**2,463,000**	2,002,000	**4,828,000**	4,005,000
Future income taxes	**426,000**	528,000	**641,000**	716,000
	9,904,000	6,936,000	**19,618,000**	13,429,000
Change in non-cash working capital				
Accounts receivable	**(46,000)**	(207,000)	**(1,280,000)**	(1,403,000)
Crude oil inventory	**(83,000)**	(91,000)	**(92,000)**	38,000
Parts inventory	**512,000**	25,000	**197,000**	(26,000)
Prepaid expenses	**(279,000)**	(422,000)	**(175,000)**	(481,000)
Accounts payable and accrued liabilities	**(134,000)**	(1,028,000)	**(2,006,000)**	737,000
	(30,000)	(1,723,000)	**(3,356,000)**	(1,135,000)
Cash Provided by Operating Activities	**9,874,000**	5,213,000	**16,262,000**	12,294,000
Financing Activities				
Increase (decrease) in debt	**(300,000)**	(19,705,000)	**6,146,000**	(19,049,000)
Due from related party	**–**	400,000	**–**	(400,000)
Proceeds on issuance of units pursuant to public offering	–	21,450,000	–	21,450,000
Unit issue costs	**–**	(1,178,000)	**–**	(1,178,000)
Unit option proceeds	**50,000**	285,000	**1,310,000**	1,151,000
Unit issue costs on acquisition of Novitas Energy Ltd. (Note 6)	**–**	–	**(259,000)**	–
Unit Distributions	**(8,846,000)**	(5,591,000)	**(17,427,000)**	(10,748,000)
Cash Used in Financing Activities	**(9,096,000)**	(4,339,000)	**(10,230,000)**	(8,774,000)
Investing Activities				
Property and equipment expenditures	**(1,688,000)**	(874,000)	**(3,678,000)**	(3,520,000)
Proceeds on sale of property (Note 4)	**1,097,000**	–	**1,097,000**	–
Partial refund of abandonment deposit (Note 3)	**–**	–	**843,000**	–
Cash portion of Novitas Energy Ltd. Acquisition (Note 4)	**–**	–	**(769,000)**	–
Change in non-cash working capital				
Accounts receivable	**607,000**	–	**803,000**	–
Accounts payable and accrued liabilities	**(794,000)**	–	**(4,328,000)**	–
Cash Used in Investing Activities	**(778,000)**	(874,000)	**(6,032,000)**	(3,520,000)
Net Cash Inflow	**–**	–	**–**	–
Cash, beginning of period	**–**	–	**–**	–
Cash, End of Period	**$ –**	$ –	**$ –**	$ –
Cash Interest Paid	**$ 162,000**	$ 179,000	**$ 288,000**	$ 407,000
Cash Taxes Paid	**$ 50,000**	$ –	**$ 555,000**	$ 1,000

Bonterra Energy Income Trust

Consolidated Balance Sheets

As at June 30, 2005 (unaudited) and December 31, 2004	**2005**	2004
Assets		
Current		
Accounts receivable	**$8,149,000**	$7,104,000
Crude oil inventory	**799,000**	569,000
Parts inventory	**194,000**	391,000
Prepaid expenses	**1,262,000**	1,040,000
Investments in related party (Note 2)	**461,000**	461,000
	10,865,000	9,565,000
Abandonment Deposit (Note 3)	**683,000**	1,522,000
Property and Equipment (Note 4)		
Petroleum and natural gas properties and related equipment	**126,761,000**	102,679,000
Accumulated depletion and depreciation	**(38,395,000)**	(28,777,000)
Net Property and Equipment	**88,366,000**	73,902,000
	$99,914,000	$84,989,000
Liabilities		
Current		
Distributions payable	**$-**	$2,690,000
Accounts payable and accrued liabilities	**7,638,000**	11,962,000
Debt (Note 5)	**14,606,000**	3,861,000
	22,244,000	18,513,000
Future Income Tax Liability	**4,727,000**	997,000
Asset Retirement Obligations	**12,476,000**	11,419,000
	39,447,000	30,929,000
Unitholders' Equity (Note 6)		
Unit capital	**82,324,000**	75,486,000
Contributed surplus	**372,000**	307,000
Accumulated earnings	**65,929,000**	51,688,000
Accumulated cash distributions	**(88,158,000)**	(73,421,000)
	60,467,000	54,060,000
	$99,914,000	$84,989,000

Bonterra Energy Income Trust

Consolidated Statements of Unitholders' Equity

(unaudited)	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	**2005**	2004
Unitholders' equity, beginning of period	**$ 61,985,000**	$38,615,000	**$ 54,060,000**	$ 36,981,000
Net earnings for the period	**7,115,000**	4,336,000	**14,241,000**	8,584,000
Net capital contributions	**50,000**	20,557,000	**1,310,000**	21,423,000
Units issued on acquisition of Novitas Energy Ltd. (Note 6)	**–**	–	**5,681,000**	–
Unit issue costs on acquisition of Novitas Energy Ltd. (Note 6)	**–**	–	**(259,000)**	–
Unit option adjustment	**163,000**	70,000	**171,000**	124,000
Cash distributions	**(8,846,000)**	(5,591,000)	**(14,737,000)**	(9,125,000)
Unitholders' Equity, End of Period	**$ 60,467,000**	$57,987,000	**$ 60,467,000**	$ 57,987,000

Notes to the Interim Financial Statements

Periods Ended June 30, 2005 and 2004 unaudited

1. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and methods of application followed in the preparation of the interim financial statements are the same as those followed in the preparation of the Trust's 2004 annual financial statements. These interim financial statements do not include all disclosure required for annual financial statements. The interim financial statements as presented should be read in conjunction with the 2004 annual financial statements.

The consolidated financial statements include the operations of the Trust's three operating subsidiaries, Comstate Resources Ltd. (Comstate), Bonterra Energy Corp. (Bonterra Corp.) and effective January 7, 2005, Novitas Energy Ltd. (Novitas).

2. INVESTMENT IN RELATED PARTY

The investment consists of 689,682 (December 31, 2004 – 689,682) common shares in Comaplex Minerals Corp. (Comaplex), a company with common directors and management. The investment is recorded at cost with the fair market value based on the trading price of stock at June 30, 2005 of $1,559,000 (December 31, 2004 - $2,414,000). The common shares trade on the

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 **16** 17 18 19 20

Toronto Stock Exchange under the symbol CMF. The investment represents less than a two percent ownership in the outstanding shares of Comaplex.

3. ABANDONMENT DEPOSIT

The Trust under the Province of Alberta Regulations provided a cash deposit with the Alberta Energy and Utilities Board for the future abandonment of specific wells. The deposit is refundable based on several conditions including abandonment or reactivation of inactive wells. During the first six months of 2005 the Trust was refunded $850,000 of the deposit. The deposit bears interest at Canadian chartered bank prime less approximately 2 percent.

4. PROPERTY AND EQUIPMENT

	June 30, 2005		December 31, 2004	
	Cost	Accumulated Depletion and Depreciation	Cost	Accumulated Depletion and Depreciation
Undeveloped land	$ 334,000	$ -	$ 308,000	$ -
Petroleum and natural gas properties and related equipment	125,680,000	38,095,000	101,661,000	28,523,000
Furniture, equipment and other	747,000	300,000	710,000	254,000
	$126,761,000	$38,395,000	$102,679,000	$28,777,000

On January 7, 2005 the Trust acquired Novitas. The acquisition was accounted for at Novitas' carrying value due to the related status of Novitas to the Trust. The carrying values are as follows:

Accounts receivable	$ 568,000
Crude oil inventory	122,000
Prepaid expenses	47,000
Property and equipment	23,130,000
Accumulated depletion and depreciation	(6,522,000)
Accounts payable and accrued liabilities	(2,010,000)
Debt	(4,598,000)
Future income tax liability	(3,089,000)
Asset retirement obligations	(1,198,000)
	$6,450,000

The acquisition cost was $769,000 cash and the issuance of 1,335,753 trust units.

On April 8, 2005, Pine Cliff Energy Ltd.'s (Pine Cliff) (former subsidiary with common directors and management) rights offering closed with over 97 percent of former Novitas shareholders exercising their rights to acquire common shares in Pine Cliff for $0.15 per common share. As part of the rights offering, the Trust agreed to sell to Pine Cliff effective January 1, 2005 (closing April 9) approximately 18 barrels per day of oil equivalent of production and some exploration lands formally held by Novitas for proceeds of $1,000,000. As a result of this sale the Trust reported a gain on sale of property of $225,000.

5. DEBT

The Trust, through its operating subsidiaries, has a bank revolving credit facility of $36,900,000 at June 30, 2005 (December 31, 2004 - $32,000,000). The terms of the credit facilities provide that the loans are due on demand and are subject to annual review. The credit facilities have no fixed payment requirements. The amount available for borrowing under the credit facilities is reduced by the amount of outstanding letters of credit. Collateral for the loans consists of a demand debenture providing a first floating charge over all of the Trust's subsidiaries assets, and a general security agreement.

The credit facilities carry an interest rate of Canadian chartered bank prime. As of June 30, 2005, the Trust had an outstanding balance under the facilities of $12,901,000 (December 31, 2004 - $3,550,000). The Trust has classified borrowing under its bank facilities as a current liability as required by guidance under the CICA's Emerging Issues Committee Abstract 122. It has been management's experience that these types of loans which are required to be classified as a current liability are seldom called by principal bankers as long as all the terms and conditions of the loan are complied with. Cash interest paid during the six month periods ended June 30, 2005 and 2004 for these loans were $288,000 and $370,000 respectively.

6. UNIT CAPITAL

Authorized

The Trust is authorized to issue an unlimited number of trust units without nominal or par value

Issued	Number	Amount
Trust Units		
Balance, January 1, 2005	14,943,405	$75,486,000
Issued pursuant to Trust's unit option plan	106,500	1,310,000
Units issued on acquisition of Novitas	1,335,753	5,681,000
Unit issue costs on acquisition of Novitas	-	(259,000)
Transfer of contributed surplus to unit capital	-	106,000
Balance, June 30, 2005	16,385,658	$82,324,000

The Trust provides an option plan for its directors, officers, employees and consultants. Under the plan, the Trust may grant options for up to 1,635,000 (December 31, 2004 – 1,323,450) trust units. The exercise price of each option granted equals the market price of the trust unit on the date of grant and the option's maximum term is five years.

A summary of the status of the Trust's unit option plan as of June 30, 2005 and December 31, 2004, and changes during the six month and twelve month periods ending on those dates is presented below:

	June 30, 2005		December 31, 2004	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of period	565,000	$11.56	937,000	$10.96
Options granted	395,000	23.35	10,000	15.60
Options exercised	(106,500)	12.30	(322,000)	10.22
Options cancelled	(44,000)	15.94	(60,000)	10.00
Outstanding at end of period	809,500	$16.98	565,000	$11.56
Options exercisable at end of period	62,500	$10.18	152,000	$11.52

The following table summarizes information about unit options outstanding at June 30, 2005:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding At 6/30/05	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable At 6/30/05	Weighted-Average Exercise Price
$9.70-$10.00	335,500	1.6 years	$ 9.99	60,500	$10.00
$15.20-$15.60	83,000	1.8 years	15.23	2,000	15.60
$23.35	391,000	3.8 years	23.35	-	-
$9.70-$23.35	809,500	2.7 years	$16.98	62,500	$10.18

The Trust records a compensation expense over the vesting period based on the fair value of options granted to employees, directors and consultants. The Trust issued on March 31, 2005, 395,000 unit options with the fair value estimated using the Black-Scholes option pricing model, assuming a weighted risk free interest rate of 3.5 percent, expected weighted average volatility of 31 percent, expected weighted average life of 2.5 years and an annual dividend rate based on the distributions paid to the Unitholders during the year.

7. RELATED PARTY TRANSACTIONS

The Trust received a management fee from Comaplex of $120,000 (2004 –

$120,000) for management services and office administration. This cost has been included as a recovery in general and administrative expenses. The above charge represents the fair value of the services rendered.

As at June 30, 2005 the Trust had an accounts receivable from Comaplex of $29,000 (December 31, 2004 - $45,000).

The Trust received a management fee from Pine Cliff of $60,000 for management services and office administration. This cost has been included as a recovery in general and administrative expenses. The above charge represents the fair value of the services rendered.

As at June 30, 2005 the Trust had an accounts receivable from Pine Cliff of $132,000 of which $128,000 relates to outstanding post closing adjustment items for the sale of properties to Pine Cliff (see Note 4).

8. COMMITMENTS – FUTURE SALES AGREEMENTS

The Trust entered into the following commodity hedging transactions for a portion of its 2005 and 2006 production:

Period of Agreement	Commodity	Volume per day	Index	Price (Cdn.)
April 1, 2004 to July 31, 2005	Crude Oil	500 barrels	WTI	$66.56 per barrel
July 1, 2005 to September 30, 2005	Crude Oil	500 barrels	WTI	$50.02 per barrel
August 1, 2005 to December 31, 2006	Crude Oil	500 barrels	WTI	$65.00 per barrel floor and $75.00 per barrel ceiling
October 1, 2005 to December 31, 2005	Crude Oil	500 barrels	WTI	$55.60 per barrel
January 1, 2006 to March 31, 2006	Crude Oil	500 barrels	WTI	$55.12 per barrel
April 1, 2005 to October 31, 2005	Natural Gas	2,000 GJ's	AECO	Floor of $5.50 and ceiling of $7.75 per GJ
May 1, 2005 to October 31, 2005	Natural Gas	2,000 GJ's	AECO	Floor of $6.75 per GJ and ceiling of $12.25 per GJ on 2,000 GJ's per day for the period November 1, 2005 to March 31, 2006
November 1, 2005 to March 31, 2006	Natural Gas	1,500 GJ's	AECO	Floor of $6.00 and ceiling of $9.45 per GJ

During the six month period ended June 30, 2005, the Trust recorded a reduction to net revenue of $1,584,000 (June 30, 2004 - $1,089,000). As at June 30, 2005 the mark to market value of the outstanding commodity hedging transactions was a net liability of $3,150,000.

9. SUBSEQUENT EVENT – DISTRIBUTION

Subsequent to June 30, 2005, the Trust declared its distribution of $0.19 per unit payable on July 29, 2005 to Unitholders of record on July 15, 2005. The distribution represents earnings in the Trust for the month of June 2005.

Bonterra
Energy Income Trust

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