Bonterra
Energy Income Trust

2004 INTERIM REPORT

For the three months ended March 31, 2004

Report to Unitholders

Bonterra Energy Income Trust ("Bonterra" or "the Trust") is pleased to report its results for the first quarter of 2004. The Trust has increased its net revenue, cash flow and net earnings. During this quarter Bonterra also received approval from the Alberta regulators to reduce the acreage size of the spacing units for coal-bed methane (CBM) wells. This approval allows multi well drilling on each section of land and will result in Bonterra commencing with a CBM drill program during the second and third quarters of 2004. During the first quarter of 2004 the Trust distributed $0.39 per unit to its Unitholders from cash flow of $0.48 per unit, an 82 percent payout ratio. In the first three months of 2003 the distribution was $0.41 per unit from cash flow of $0.46 per unit, an 89 percent payout ratio.

Financial and Operational Highlights

For the three months ended

	March 31 2004	December 31 2003[2]	March 31 2003[2]
FINANCIAL			
Revenue - oil and gas			
(net of royalties)	**$10,787,000**	$ 9,222,000	$ 9,955,000
Cash Flow From Operations (1)	**$ 6,493,000**	$ 5,663,000	$ 6,188,000
Per Unit - Basic	**$0.48**	$0.42	$0.46
Per Unit - Diluted	**$0.47**	$0.42	$0.46
Net Earnings	**$ 4,248,000**	$ 3,484,000	$ 4,216,000
Per Unit - Basic and Diluted	**$0.31**	$0.26	$0.32
Cash Distributions	**$0.39**	$0.36	$0.41
Capital Expenditures and Acquisitions	**$ 2,597,000**	$ 2,361,000	$ 518,000
Total Assets	**$80,540,000**	$77,836,000	$77,136,000
Debt	**$22,070,000**	$21,216,000	$18,792,000
Unitholders' Equity	**$38,615,000**	$36,981,000	$42,722,000

Financial and Operational Highlights For the three months ended	March 31 2004	December 31 2003[2]	March 31 2003[2]
OPERATIONS			
Oil and NGL's- Barrels Per Day	**2,401**	2,429	2,400
Gas - MCF Per Day	**4,641**	4,272	4,661

(1) Cash flow from operations is a non-GAAP measure that represents cash generated from operating activities before changes in non-cash working capital. Cash flow from operations may not be comparable to similar measures used by other entities.

(2) Figures have been restated to conform to current accounting policies. See notes to financial statements.

A Discussion of Financial and Operational Results

Average daily production volume for the three months ended March 31, 2004 was 3,175 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 2,401 barrels per day of crude oil and natural gas liquids and 4,641 MCF per day of natural gas. Bonterra's first quarter 2003 average production was 3,178 BOE's per day consisting of 2,400 barrels per day of crude oil and natural gas liquids and 4,661 MCF per day of natural gas.

Early in the first quarter, the Trust commenced production on three natural gas wells drilled in late 2003. This resulted in the addition of approximately 300 MCF per day of production over fourth quarter levels. The Trust has been able to maintain its production levels through development drilling of its shallow gas and CBM prospects as well as infill oil drilling through its non-operated interests.

The Trust filed an application in the third quarter of 2003 with the Alberta Energy and Utilities Board requesting reduced drill spacing for CBM in the Pembina area of Alberta. This request has been approved and will assist in increasing the recovery of CBM as well as increase the number of 100 percent owned wells the Trust can drill. The Trust has plans for drilling and or re-completion of approximately 25 CBM wells in 2004.

During the first quarter the Trust drilled eight (net seven) shallow gas wells and two (net two) CMB wells. All of which were successful. Five of the wells were put on production in late March and two more by the end of April. The Trust plans on having all wells on production by mid June. A production increase of approximately 700 MCF per day net to the Trust is anticipated from this drilling.

Net revenue from petroleum and natural gas sales was $10,787,000 (2003 - $9,955,000). The increase in net revenue over the fourth quarter was primarily due to higher commodity prices. The average price received for crude oil and natural gas liquids during the first quarter of 2004 was $41.85 per barrel and $6.62 per MCF for natural gas compared to $43.94 per barrel and $5.66 per MCF in the corresponding 2003 period. The Trust incurred a $332,000 (2003 - $2,022,000) hedging loss during the first quarter of 2004. Please see note five to the financial statements for a current listing of the Trust's outstanding hedging agreements.

Production costs for the three months ended March 31, 2004 were $3,723,000 compared to $3,195,000 for the three months ended March 31, 2003. On a BOE basis production costs averaged $12.89 in 2004 verses $11.44 in the corresponding 2003 period. The increase in production costs is mainly attributable to underestimating 2003 first quarter non-operated property production costs of approximately $250,000 and adjustments in operating costs relating to inventory levels due to new accounting policy changes of approximately $150,000.

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 lease, power and personnel costs are not variable with production volumes. Production costs in the $12 to $13 per BOE range are expected. As the Trust develops its shallow natural gas potential, the average costs per BOE will decline. The high production costs for the Trust are substantially offset by low royalty rates of approximately 10 percent, which is much lower than industry average for conventional production and results in high cash net backs on a combined basis despite higher than average production costs.

General and administrative expenses were $426,000 in the first quarter of 2004 compared to $467,000 in the three months ended March 31, 2003 and $267,000 in the three months ended December 31, 2003. The cost increase in the first quarter of 2004 over the last three months of 2003 is primarily due to the commissioning of a third party engineering report. Costs on a BOE bases decreased marginally to $1.47 per BOE in the first quarter of 2004 from $1.63 per BOE in the first quarter of 2003. The decrease in general and administrative expenses year over year was due primarily to revenue increases from management and well administration fees charged to companies managed by the Trust plus a general decline in office administrative expenditures.

Interest expense increased to $228,000 for the three months ended March 31, 2004 compared to $176,000 for the three months ended March 31, 2003. Increased debt levels were the primary factors in the rise in interest expense. The Trust still maintains a total debt as a percentage of annual cash flow of less than one year.

Provision for depletion, depreciation and accretion was $2,003,000 and $1,819,000 for the three-month periods ending March 31, 2004 and March 31, 2003 respectively. The increase was primarily due to depletion resulting from the additional drilling done by the Trust during 2003 and 2004. The 2004 change in accounting policy related to the accounting for asset retirement did not result in a significant change in the Trust's provision for depletion, depreciation and accretion (formerly future site restoration).

Cash flow from operations increased by $305,000 from $6,188,000 in the first three months of 2003 to $6,493,000 in the first three months of 2004. Also, first quarter 2004 cash flow was $830,000 higher than the last three months of 2003. The increases were due to higher net commodity prices after adjusting for hedging losses in 2004 over both the first and fourth quarters of 2003 offset partially by higher operating costs.

During the first quarter of 2004, the Trust incurred capital costs of $2,646,000 consisting primarily of $2,047,000 for drilling and completing of the ten (net nine) natural gas wells, $249,000 for drilling of non-operated infill oil wells, and $188,000 for tying in natural gas wells drilled in 2003.

The Trust currently has plans to drill or recomplete a further 35 net shallow gas (including CBM) wells in 2004. Drilling success in 2004 should substantially increase our natural gas production and reserves. 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 operator of the properties on these prospects.

Outlook

Bonterra continues to be optimistic with regard to the development of its shallow gas in the Edmonton sand and CBM properties in the Pembina field in west central Alberta. The majority of the Trust's 2004 capital expenditures will be focused on drilling in this field. The Trust has a large property inventory that provides the potential to drill approximately 400 wells in this area.

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

Consolidated Statements of Operations and Accumulated Earnings

For the three months ended March 31 (unaudited)

	2004	2003 (Restated (See Note 1)
Revenue		
Oil and gas sales, net of royalties	**$10,787,000**	$ 9,955,000
Production costs	**(3,723,000)**	(3,195,000)
Alberta royalty tax credits	**66,000**	70,000
Interest and other	**18,000**	4,000
	7,148,000	6,834,000
Expenses		
General and administrative	**426,000**	467,000
Interest on long-term debt	**228,000**	176,000
Unit option expense (Note 1)	**54,000**	40,000
Depletion, depreciation and accretion (Note 1)	**2,003,000**	1,819,000
	2,711,000	2,502,000
Earnings before Income Taxes	**4,437,000**	4,332,000
Income Taxes		
Current	**1,000**	3,000
Future	**188,000**	113,000
	189,000	116,000
Net Earnings for the Period	**4,248,000**	4,216,000
Accumulated earnings at beginning of period	**31,319,000**	17,377,000
Accumulated Earnings at End of Period	**$35,567,000**	$21,593,000
Net Earnings Per Trust Unit – Basic and Diluted	**$0.31**	$0.32

Consolidated Statements of Cash Flows

For the three months ended March 31 (unaudited)

	2004	2003 (Restated (See Note 1)
Operating Activities		
Net earnings for the period	**$3,904,000**	$4,216,000
Items not affecting cash		
Unit option expense (Note 1)	**54,000**	40,000
Depletion, depreciation and accretion (Note 1)	**2,003,000**	1,819,000
Future income taxes	**532,000**	113,000
Cash Flow from Operations	**6,493,000**	6,188,000
Change in non-cash operating working capital items		
Accounts receivable	**(1,196,000)**	(81,000)
Crude oil inventory	**129,000**	(84,000)
Parts inventory	**(51,000)**	(30,000)
Prepaid expenses	**(59,000)**	(47,000)
Accounts payable and accrued liabilities	**1,765,000**	169,000
	588,000	(73,000)
Cash Provided by Operating Activities	**7,081,000**	6,115,000
Financing Activities		
Increase in long-term debt	**854,000**	435,000
Due from related party (Note 2)	**(800,000)**	-
Unit option proceeds	**866,000**	-
Unit distributions	**(5,157,000)**	(5,080,000)
Cash Used in Financing Activities	**(4,237,000)**	(4,645,000)
Investing Activities		
Property and equipment expenditures	**(2,646,000)**	(518,000)
Cash Used in Investing Activities	**(2,646,000)**	(518,000)
Net Cash Inflow	**198,000**	952,000
Bank indebtedness, beginning of period	**(614,000)**	(1,273,000)
Bank Indebtedness, End of Period	**($416,000)**	($321,000)
Cash Interest Paid	**228,000**	176,000
Cash Taxes Paid	**1,000**	3,000

Consolidated Balance Sheets

As at March 31, 2004 (unaudited)
and December 31, 2003

	2004	2003 (Restated (See Note 1)
Assets		
Current		
Accounts receivable	**$ 5,701,000**	$4,505,000
Crude oil inventory (Note 1)	**522,000**	662,000
Parts inventory	**411,000**	360,000
Due from related party (Note 2)	**800,000**	-
Prepaid expenses	**775,000**	716,000
Investments (at cost; quoted market value at March 31, 2004 - $2,104,000 December 31, 2003 - $2,931,000	**461,000**	461,000
Total Current Assets	**8,670,000**	6,704,000
Property and Equipment (Note 3)		
Petroleum and natural gas properties and related equipment	**95,227,000**	92,636,000
Accumulated depletion and depreciation	**(23,357,000)**	(21,504,000)
Net Property and Equipment	**71,870,000**	71,132,000
	$80,540,000	$77,836,000
Liabilities		
Current		
Bank indebtedness	**$416,000**	$614,000
Distributions payable	-	1,623,000
Accounts payable and accrued liabilities	**7,568,000**	5,803,000
Debt	**22,070,000**	21,216,000
Total Current Liabilities	**30,054,000**	29,256,000
Future Income Tax Liability	**573,000**	385,000
Asset Retirement Obligations (Note 1)	**11,298,000**	11,214,000
Total Liabilities	**41,925,000**	40,855,000
Unitholders' Equity (Note 4)		
Unit capital	**52,664,000**	51,764,000
Contributed surplus	**251,000**	231,000
Accumulated earnings	**35,567,000**	31,319,000
Accumulated cash distributions	**(49,867,000)**	(46,333,000)
Total Unitholders' Equity	**38,615,000**	36,981,000
	$80,540,000	$77,836,000

Consolidated Statements of Unitholders' Equity

For the three months ended March 31 (unaudited)

	2004	2003 (Restated (See Note 1)
Unitholders' equity, beginning of period	$37,325,000	$42,075,000
Net earnings for the period	3,904,000	4,216,000
Net capital contributions	866,000	-
Stock option adjustment	54,000	40,000
Cash distributions	(3,534,000)	(3,609,000)
Unitholders' Equity, End of Period	$38,615,000	$42,722,000

Subject to Year-end Audit and Adjustments

Notes to the Interim Financial Statements

Periods Ended March 31, 2004 and 2003 (unaudited)

1. Significant Acccounting 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 2003 annual financial statements except for the following items. The interim financial statements as presented should be read in conjunction with the 2003 annual financial statements.

- Stock-based compensation plan

  Effective January 1, 2004 the Trust adopted the Canadian Institute of Chartered Accountants ("CICA") section 3870, "Stock-based Compensation and Other Stock-based Payments", retroactively with restatement of prior periods. The recommendations require the Trust to record a compensation expense over the vesting period based on the fair value of options granted to employees and directors.

  The change resulted in the following amendments to figures for the three months ended March 31, 2003 and balances as at December 31, 2003:

	2003 As reported	2003 Restated
Unit option expense	$ -	$ 40,000
Unit capital	51,137,000	51,172,000
Contributed surplus (December 31, 2003)	-	231,000
Accumulated earnings (January 1, 2003)	17,841,000	17,786,000
Accumulated earnings (December 31, 2003)	31,879,000	31,613,000

- Asset Retirement Obligations

Effective January 1, 2004 the Trust retroactively adopted the CICA section 3110, “Asset Retirement Obligations”. The new recommendations require that the recognition of the fair value of obligations associated with the retirement of tangible long-life assets be recorded in the period the asset is put into use, with a corresponding increase to the carrying amount of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is adjusted over time for changes in the value of the liability through accretion charges which are included in depletion, depreciation and accretion expense. The costs capitalized to the related assets are amortized to earnings in a manner consistent with the depletion and depreciation of the underlying asset.

The change resulted in the following amendments to figures for the three months ended March 31, 2003 and balances as at December 31, 2003:

	2003 As reported	2003 Restated
Depletion, depreciation and accretion	$ 1,871,000	$ 1,819,000
Unit capital	51,172,000	51,764,000
Accumulated earnings (January 1, 2003)	17,786,000	17,882,000
Accumulated earnings (December 31, 2003)	31,613,000	31,820,000
Petroleum and natural gas properties and related equipment	87,032,000	92,636,000
Accumulated depletion and depreciation	(19,545,000)	(21,366,000)
Asset retirement obligations	8,573,000	11,214,000
Future income tax liability	41,000	385,000

At March 31, 2004, the estimated total undiscounted amount required to settle the asset retirement obligations was $28,360,000. These obligations will be settled based on the useful lives of the underlying assets, which currently extend up to 40 years into the future. This amount has been discounted using a risk-free interest rate of 5.0%.

Changes to asset retirement obligations were as follows:

	Three months ended March 31, 2004
Asset retirement obligations, December 31, 2003	$ 11,214,000
Liabilities settled during period	(55,000)
Accretion	139,000
Asset retirement obligations, March 31, 2004	$ 11,298,000

- Crude oil inventory

  Effective January 1, 2004 the Trust records its crude oil inventory at the lower of cost and net realizable value. The change resulted in the following amendments to figures for the three months ended March 31, 2003 and balances as at December 31, 2003:

	2003 As reported	2003 Restated
Oil and gas sales, net of royalties	$10,246,000	$ 9,955,000
Production costs	3,270,000	3,195,000
Accumulated earnings (January 1, 2003)	17,882,000	17,377,000
Accumulated earnings (December 31, 2003)	31,820,000	31,319,000
Accounts receivable	5,530,000	4,505,000
Crude oil inventory	-	662,000
Accumulated depletion and depreciation	(21,366,000)	(21,504,000)

- Hedging relationships

  The CICA published an amended Accounting Guideline 13, "Hedging Relationships," effective January 1, 2004, to clarify circumstances in which hedge accounting is appropriate. All derivative instruments that do not qualify as a hedge under the guideline, or are not properly designated as a hedge, will be recorded on the balance sheet as either an asset or liability with changes in fair value recognized in earnings. The Trust adopted the standard January 1, 2004 with no impact on the financial results.

The cumulative impact of the above described accounting changes to first quarter 2003 was a reduction in net earnings of $204,000 and of $0.01 per unit in basic and diluted earnings per trust unit.

2. Related Party

During the first quarter of 2004, the Trust provided a temporary operating loan to Novitas Energy Ltd. (Novitas), a company with common management and directors. The loan has an interest rate of bank prime plus one-half percent. There is no security provided for the loan, however, the management agreement in place between Novitas and the Trust can not be terminated as long as the loan remains outstanding. Interest paid on the loan during the first quarter of 2004 was $18,000.

During the first quarter the Trust received a management fee from Novitas for management services of $20,000 (2003 - $10,000) per month plus five percent of before tax net earnings. Total receipts during the first three months of 2004 were $67,000 (2003 - $56,000). Novitas also paid administrative fees on a per well basis to the Trust for the administration of its oil and gas properties. Total amounts paid during the first three months of 2004 were $41,500 (2003 - $33,000).

3. Property and Equipment

	March 31, 2004 Cost	March 31, 2004 Accumulated Depletion and Depreciation	December 31, 2003 Cost	December 31, 2003 Accumulated Depletion and Depreciation
Undeveloped land	$ 186,000	$ -	$ 186,000	$ -
Petroleum and natural gas properties and related equipment	94,351,000	23,144,000	91,774,000	21,311,000
Furniture, equipment and other	690,000	213,000	676,000	193,000
	$95,227,000	$23,357,000	$92,636,000	$21,504,000

4. 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, 2004	13,521,405	$51,764,000
Issued pursuant to Trust's unit option plan	87,000	866,000
Transfer of contributed surplus to unit capital	-	34,000
Balance, March 31, 2004	13,608,405	$52,664,000

See Note 1 regarding accounting for unit-based compensation plan.

5. Commitments – Future Sales Agreements

The Trust entered into the following commodity hedging transactions for a portion of its 2004 and 2005 production:

Period of Agreement	Commodity	Volume per day	Index	Price (Cdn.)
April 1, 2004 to June 30, 2004	Crude Oil	500 barrels	WTI	$40.00 per barrel
March 1, 2004 to May 31, 2004	Crude Oil	500 barrels	WTI	$46.20 per barrel
July 1, 2004 to September 30, 2004	Crude Oil	500 barrels	WTI	$40.85 per barrel
October 1, 2004 to December 31, 2004	Crude Oil	500 barrels	WTI	$44.20 per barrel
January 1, 2005 to March 31, 2005	Crude Oil	500 barrels	WTI	$43.08 per barrel
April 1, 2004 to October 31, 2004	Natural Gas	1,500 GJ's	AECO	Floor of $4.75 and ceiling of $7.25 per GJ
April 1, 2004 to October 31, 2004	Natural Gas	2,000 GJ's	AECO	Floor of $5.75 and ceiling of $7.35 per GJ

6. Subsequent Event – Distribution

Subsequent to March 31, 2004, the Trust declared its distribution of $0.13 per unit payable on April 30, 2004 to Unitholders of record on April 16, 2004. The distribution represents earnings in the Trust for the month of March 2004.

Bonterra
Energy Income Trust

901, 1015 – 4TH ST SW, CALGARY, ALBERTA T2R 1J4