Bonterra
Energy Income Trust

2003 INTERIM REPORT

For the nine months ended September 30, 2003

HIGHLIGHTS

	Three Months Ended September 30 2003	2002	Nine Months Ended September 30 2003	2002
Gross Oil, Gas & NGL Sales	$10,535,000	$ 11,017,000	$32,644,000	$29,068,000
Cash Flow[1]	$ 5,114,000	$ 5,157,000	$16,239,000	$ 13,943,000
Cash Flow per Unit[1]	$ 0.38	$ 0.39	$ 1.21	$ 1.09
Net Earnings	$3,062,000	$ 2,716,000	$10,430,000	$ 8,431,000
Net Earnings per Unit	$ 0.23	$ 0.20	$ 0.77	$ 0.66
Distributions per Unit	$ 0.38	$ 0.36	$ 1.19	$ 0.95
Issued Units	13,368,405	13,368,405	13,368,405	13,368,405
Daily Oil and NGL Production (bbls)	2,325	2,600	2,369	2,428
Daily Gas Production (MCF)	4,386	4,953	4,447	4,180
Daily BOE (6:1)	3,056	3,426	3,110	3,125
Average Oil Price ($/bbl)	$ 38.58	$ 38.69	$ 40.13	$ 37.36
Average Gas Price ($/MCF)	$ 5.06	$ 3.85	$ 5.39	$ 3.77
Average BOE Price ($/BOE)	$ 36.58	$ 34.93	$ 38.27	$ 34.07

[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 organizations.

REPORT TO UNITHOLDERS

Bonterra Energy Income Trust (the Trust) is pleased to report its results for the first nine months of 2003. The Trust has been successful in generating substantial increases in net revenue, cash flow and net earnings on a gross and per unit basis. Cash distributions based on operations for the first nine months of 2003 were $1.19 per unit compared to $0.95 for the first nine months of 2002. This increase in cash distributions has been accomplished despite an average monthly reduction in cash flow of $0.03 per unit due to the strength of the Canadian dollar compared to the U.S. dollar.

It should be noted that, although Bonterra has distributed to Unitholders approximately 98 percent of its cash flow, its debt level has only increased marginally and no units were issued during this time period. With additional production commencing in the fourth quarter for operated gas wells and non-operated oil wells and subject to commodity prices and the Canadian dollar exchange rate, the Trust anticipates that its distributions will remain consistent for the balance of 2003 and the distribution percentage of cash flow should reduce from the 98 percent ratio that has been distributed for the nine month period.

During the third quarter the Trust had production problems associated with non-operated facilities that account for a portion of the lower BOE's for that quarter. A scheduled turnaround at a gas plant that processes natural gas and solution gas from the Carnwood Area of the Pembina field resulted in the oil and gas wells being shut in for a period of time that resulted in an average reduction of 60 BOE's per day for the entire third quarter.

Production also declined due to insufficient compression in the Pembina field to handle all the additional gas production that has been developed in 2003 by companies that are active in this area. The short-fall in compression increased line pressures making it difficult to produce new wells at acceptable rates, and it also results in backing out or reducing production from existing producing oil and gas wells in the area. Discussions are ongoing amongst operators in the area and engineering studies have been commissioned to alleviate the problem in the near future.

A DISCUSSION OF FINANCIAL AND OPERATIONAL RESULTS

Net revenue (net of royalties) was $28,669,000 in the first nine months of 2003 compared to $26,643,000 for the nine months ended September 30, 2002. The increase was primarily due to higher commodity prices in 2003. Net revenue also increased marginally by $207,000 in the third quarter of 2003 over the 2003 second quarter.

Cash flow from operations was $16,239,000 for the nine months ended September 30, 2003 verses $13,973,000 for the corresponding period of 2002. The cash flow increase of $2,473,000 or approximately 18 percent was due to higher commodity prices and lower operating costs offset partially by increased general and administrative expenditures and interest costs. Cash flow for the third quarter of 2003 increased $393,000 over the second quarter of 2003 due primarily to lower royalties on gas production and reduced operating costs.

Net earnings for the nine months ended September 30, 2003 was $10,430,000 an increase of $1,999,000 or approximately 24 percent over the first nine months of 2002. The increase was primarily due to increased commodity prices combined with reduced operating costs. Net earnings was relatively unchanged third quarter over second quarter 2003.

Average daily production volume for the nine months ended September 30, 2003 was 3,110 BOE's per day. Production consists of 2,369 barrels per day of crude oil and natural gas liquids and 4,447 MCF per day of natural gas. Bonterra's first nine months of 2002 average production was 3,125 BOE's per day consisting of 2,428 barrels per day of crude oil and natural gas liquids and 4,180 MCF per day of natural gas.

Gross revenue from petroleum and natural gas sales was $32,644,000 (2002 - $29,068,000). The average price received for crude oil and natural gas liquids during the first nine months of 2003 was $40.13 per barrel and $5.39 per MCF for natural gas compared to $37.36 per barrel and $3.77 per MCF in the corresponding 2002 period. The Trust incurred a $3,056,000 hedging loss during the first nine months of 2003. This compares to a hedging loss of only $18,000 for the first nine months in 2002. Please see note five to the financial statements for a current listing of the Trust's outstanding hedging agreements.

Operating costs for the nine months ended September 30, 2003 were $10,820,000 compared to $11,482,000 for the nine months ended September 30, 2002. On a BOE basis operating costs averaged $12.74 in 2003 verses $13.46 in 2002. The Trust continues to focus on means of reducing overall operating costs through facility optimization as well as cost reduction measures. Operating cost decreases in the third quarter of 2003 compared to the second quarter of 2003 were primarily due to plant turnaround costs as well as significant maintenance costs in the Dodsland area of Saskatchewan during the second quarter.

General and administrative expenses, were $1,105,000 in the first nine months of 2003 compared to $920,000 in the nine months ended September 30, 2002. Costs on a BOE bases increased marginally to $1.30 per BOE in the first nine months of 2003 from $1.08 per BOE in the first nine months of 2002. The increase in general and administrative expenses was due primarily to an expenditure of approximately $100,000 associated with obtaining a third party engineering report that was required for regulatory and banking purposes as well as an increase of approximately $150,000 in employee compensation expenses for additional staff offset partially by increased cost recoveries from companies that share common management. General and administrative costs increased in the third quarter due to additional staffing, costs associated with bank facility increases and increased general office costs that are normally incurred during the months of July to September each year. The additional staff that has been hired is to assist in the Trust's exploration and development activities.

Interest expense increased to $669,000 for the nine months ended September 30, 2003 compared to $468,000 for the nine months ended September 30, 2002. Increased debt levels as well as an increase of three quarters of a percent in interest rates were the primary factors in the rise in interest expense. The Trust still maintains a debt to cash flow ratio of less than one year based on year to date cash flow. This is well below the average for oil and gas trusts ratio of 1.8 times. Interest expense for the third quarter was $45,000 lower than the second quarter cost. The decrease was due to reduced interest rates offset partially by a higher debt balance.

Provision for depletion, depreciation and future site restoration was $5,723,000 and $6,223,000 for the nine month periods ending September 30, 2003 and September 30, 2002 respectively. The provision reduction of $500,000 incorporates the increase resulting from the February 1, 2002 acquisition of Comstate Resources Income Trust offset by an increase in reserves that resulted from our January 1, 2003 independent engineering review.

During the first nine months of 2003, the Trust incurred capital costs of $3,026,000 consisting primarily of $1,228,000 for drilling and completing several oil wells on non-operated properties that were drilled in the third quarter and should be on production in the fourth quarter, $962,000 for drilling and completing six operated natural gas wells of which two commenced production in April 2003 with the remaining four anticipated to be on production prior to year end, $145,000 in land acquisition costs relating to shallow and coal-bed methane potential development, and various other small capital projects.

OUTLOOK

The Trust's main growth potential continues to be in the coal-bed methane project in the Pembina area. Bonterra is continuing to monitor its own and other production in this area and recently has drilled and completed additional wells in this field. The existing infrastructure in the Pembina area provides a large economic benefit compared to many other potential coal-bed methane projects that do not have comparable infrastructure of gathering systems, gas plants and water disposal systems. The Trust has presented an application to the Alberta Energy and Utilities Board to seek approval to complete more than one well per section of land. Upon receipt of this approval and confirmation of plant capacity Bonterra will proceed with an aggressive evaluation program. Industry and government continue to have optimism with regard to the economic development of coal-bed methane in the Western Sedimentary Basin.

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 INCOME

For the Periods Ended September 30	Three Months Ended September 30 2003	2002	Nine Months Ended September 30 2003	2002
Revenue				
Oil and gas sales, net of royalties	$9,315,000	$10,035,000	$28,669,000	$26,643,000
Production costs	(3,670,000)	(4,379,000)	(10,820,000)	(11,482,000)
Alberta royalty tax credits	53,000	38,000	174,000	111,000
Interest and other	4,000	-	12,000	35,000
	5,702,000	5,694,000	18,035,000	15,307,000
Expenses				
General and administrative	358,000	336,000	1,105,000	866,000
Management fees	-	-	-	54,000
Interest on long-term debt	224,000	197,000	669,000	468,000
	582,000	533,000	1,774,000	1,388,000
Cash Flow from Operations before				
Current Taxes	5,120,000	5,161,000	16,261,000	13,919,000
Depletion, depreciation and				
future site restoration	1,954,000	2,372,000	5,753,000	6,223,000
Earnings before Taxes	3,166,000	2,789,000	10,508,000	7,696,000
Income Taxes (Recovery)				
Current	6,000	4,000	22,000	(24,000)
Future	98,000	69,000	56,000	(711,000)
	104,000	73,000	78,000	(735,000)
Net Earnings for the Period	3,062,000	2,716,000	10,430,000	8,431,000
Accumulated Earnings at				
Beginning of Period	25,209,000	11,081,000	17,841,000	5,366,000
Accumulated Earnings at				
End of Period	$28,271,000	$13,797,000	$28,271,000	$13,797,000
Net Earnings per Trust Unit,				
Basic and Diluted	$0.23	$0.20	$0.77	$0.66

Subject to Year-end Audit and Adjustments

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Periods Ended September 30	Three Months Ended September 30 2003	2002	Nine Months Ended September 30 2003	2002
Operating Activities				
Net earnings for the period	$3,062,000	$2,716,000	$10,430,000	$8,431,000
Items not affecting cash				
Depletion, depreciation				
and future site restoration	1,954,000	2,372,000	5,753,000	6,223,000
Future income taxes	98,000	69,000	56,000	(711,000)
Cash Flow from Operations	5,114,000	5,157,000	16,239,000	13,943,000
Change in non-cash operating				
working capital items				
Accounts receivable	447,000	(724,000)	928,000	(1,006,000)
Inventories	(43,000)	10,000	(55,000)	(2,000)
Prepaid expenses	(151,000)	13,000	(452,000)	(106,000)
Accounts payable and				
accrued liabilities	1,004,000	1,285,000	129,000	1,893,000
	1,257,000	584,000	550,000	779,000
Cash Provided by Operating Activities	6,371,000	5,741,000	16,789,000	14,722,000
Financing Activities				
Increase in long-term debt	390,000	1,470,000	2,993,000	3,586,000
Unit issue costs	-	-	-	(92,000)
Unit distributions payable upon merger	-	-	-	(795,000)
Unit distributions	(5,214,000)	(4,813,000)	(15,775,000)	(13,142,000)
Cash Used in Financing Activities	(4,824,000)	(3,343,000)	(12,782,000)	(10,443,000)
Investing Activities				
Property and equipment expenditures	(1,453,000)	(2,673,000)	(3,026,000)	(4,246,000)
Bank indebtedness assumed				
upon merger	-	-	-	(116,000)
Cash Used in Investing Activities	(1,453,000)	(2,673,000)	(3,026,000)	(4,362,000)
Net Cash Inflow (Outflow)	94,000	(275,000)	981,000	(83,000)
Bank Indebtedness, Beginning of Period	(386,000)	(256,000)	(1,273,000)	(448,000)
Bank Indebtedness, End of Period	($292,000)	($531,000)	($292,000)	($531,000)

Subject to Year-end Audit and Adjustments

CONSOLIDATED BALANCE SHEETS

As at September 30, 2003 and December 31, 2002	2003	2002
Assets		
Current		
Accounts receivable	$4,967,000	$5,895,000
Inventories	377,000	322,000
Prepaid expenses	965,000	513,000
Investments (at cost; quoted market value at		
September 30, 2003 - $2,759,000		
December 31, 2002 - $724,000)	461,000	461,000
Total Current Assets	6,770,000	7,191,000
Property and Equipment (Note 2)		
Petroleum and natural gas properties		
and related equipment	84,434,000	81,609,000
Accumulated depletion and depreciation	(17,313,000)	(12,383,000)
Net Property and Equipment	67,121,000	69,226,000
	$73,891,000	$76,417,000
Liabilities		
Current		
Bank indebtedness	$292,000	$1,273,000
Distributions payable	-	1,471,000
Accounts payable and accrued liabilities	5,578,000	5,449,000
Current portion of long-term debt (Note 3)	21,350,000	10,357,000
Total Current Liabilities	27,220,000	18,550,000
Long-Term Debt (Note 3)	-	8,000,000
Future Income Tax Liability	231,000	175,000
Future Site Restoration	8,422,000	7,800,000
Total Liabilities	35,873,000	34,525,000
Unitholders' Equity (Note 4)		
Unit capital	49,607,000	49,607,000
Accumulated earnings	28,271,000	17,841,000
Accumulated cash distributions	(39,860,000)	(25,556,000)
Total Unitholders' Equity	38,018,000	41,892,000
	$73,891,000	$76,417,000

Subject to Year-end Audit and Adjustments

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

For the Periods Ended September 30	Three Months Ended September 30 2003	2002	Nine Months Ended September 30 2003	2002
Unitholders' equity, beginning of period	$40,170,000	$46,362,000	$41,892,000	$11,388,000
Net earnings for the period	3,062,000	2,716,000	10,430,000	8,431,000
Net capital contributions	-	-	-	36,632,000
Cash distributions	(5,214,000)	(4,813,000)	(14,304,000)	(12,186,000)
Unitholders' Equity, End of Period	$38,018,000	$44,265,000	$38,018,000	$44,265,000

Subject to Year-end Audit and Adjustments

NOTES TO THE INTERIM FINANCIAL STATEMENTS

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 2002 annual financial statements. The interim financial statements as presented should be read in conjunction with the 2002 annual financial statements.

2. PROPERTY AND EQUIPMENT

	September 30, 2003		December 31, 2002	
	Cost	Accumulated Depletion and Depreciation	Cost	Accumulated Depletion and Depreciation
Undeveloped land	$ 210,000	$ -	$ 65,000	$ -
Petroleum and natural gas properties and related equipment	83,556,000	17,142,000	80,908,000	12,277,000
Furniture, equipment and other	668,000	171,000	636,000	106,000
	$ 84,434,000	$17,313,000	$81,609,000	$12,383,000

3. LONG-TERM DEBT

Effective June 30, 2003, the Trust has a long-term bank revolving credit facility of $32,000,000 (December 31, 2002 - $24,000,000). The terms of the credit facility provide that the loan is due on demand and is subject to annual review. The credit facility has no fixed payment requirements. The amount available for borrowing under the credit facility is reduced by the amount of outstanding letters of credit. Collateral for the loan consists of a demand debenture providing a first floating charge over all of the Trust's assets, and a general security agreement.

Fourteen million dollars of the credit facility carries an interest rate of Canadian chartered bank prime with the balance at one-quarter percent above prime. As of September 30, 2003, the Trust had an outstanding balance under the facility of $21,350,000 (December 31, 2002 - $10,357,000). The Trust has classified borrowing under its bank facilities as a current liability as required by new guidance under the CICA's Emerging Issues Committee Abstract 122. It has been management's experience that these types of loans which are now 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 nine month period ended September 30, 2003 for this loan was $476,000 (nine months ended September 30, 2002 - $274,000).

As at September 30, 2003, the Trust has a balance payable of $Nil (December 31, 2002 - $8,000,000) to Comaplex Minerals Corp. (Comaplex) a company with common management. The interest rate is bank prime less three-quarters of a percent. There currently is no security provided by the Trust for the loan, but the Trust has agreed to maintain a line of credit with its principal banker sufficient to repay the loan if demanded. The loan was repaid on September 30, 2003. Cash interest paid during the nine months ended September 30, 2003 for this loan was $238,000 (nine months ended September 30, 2002 - $194,000).

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, 2003	13,368,405	$49,607,000
Balance, September 30, 2003	13,368,405	$49,607,000

The Trust provides an option plan for its directors, officers, employees and consultants. Under the plan, the Trust may grant options for up to 1,323,450 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. Options vest one-third each year for the first three years of the option term. On October 1, 2002, the Trust issued 963,000 unit options to its directors, officers, employees and consultants. The unit options were issued at the market value of the Trust on October 1, 2002, which was $10 per unit and expire January 31, 2007.

The Trust accounts for its stock based compensation plan using intrinsic values. Under this method no costs are recognized in the financial statements for unit options granted to employees and directors when the options are issued at prevailing market prices. For fiscal years beginning on or after January 1, 2002, Canadian generally accepted accounting principles require disclosure of the impact on net earnings using the fair market value method for stock options issued on or after January 1, 2002. If the fair value method had been used, the Trusts net earnings and net earnings per share would not be significantly different from those reported. The fair value of options granted has been estimated using the Black-Scholes option pricing model, assuming a risk free interest rate of 4.20%, expected volatility of 25%, expected weighted average life of five years and an annual dividend rate based on the distributions paid to the unitholders during the year.

5. COMMITMENTS – FUTURE SALES AGREEMENTS

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

Period of Agreement	Commodity	Volume per day	Index	Price (Cdn.)
January 1, 2003 to October 31, 2003	Natural Gas	2,000 GJ's	AECO	$3.77 per GJ
April 1, 2003 to October 31, 2003	Natural Gas	1,200 GJ's	AECO	$5.82 per GJ
October 1, 2003 to December 31, 2003	Crude Oil	600 barrels	WTI	$40.00 per barrel
October 1, 2003 to December 31, 2003	Crude Oil	400 barrels	WTI	$42.40 per barrel
January 1, 2004 to March 31, 2004	Crude Oil	600 barrels	WTI	$41.00 per barrel
November 1, 2003 to March 31, 2004	Natural Gas	1,800 GJ's	AECO	Floor of $5.00 and ceiling of $9.05 per GJ

6. SUBSEQUENT EVENT – DISTRIBUTIONS

Subsequent to September 30, 2003, the Trust declared its distribution of $0.12 per unit payable on October 31, 2003 to Unitholders of record on October 15, 2003. The distribution represents income earned in the Trust in the month of September 2003.

Bonterra
Energy Income Trust

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