Bonterra
Energy Income Trust

2003 INTERIM REPORT

For the six months ended June 30, 2003

HIGHLIGHTS

	Three Months Ended June 30 2003	Three Months Ended June 30 2002	Six Months Ended June 30 2003	Six Months Ended June 30 2002
Gross Oil, Gas & NGL Sales	$11,017,000	$10,028,000	$22,109,000	$18,126,000
Cash Flow(1)	$ 4,721,000	$ 4,835,000	$ 11,125,000	$ 8,786,000
Cash Flow per Unit(1)	$ 0.35	$ 0.36	$ 0.83	$ 0.70
Net Earnings	$2,948,000	$ 3,261,000	$ 7,368,000	$ 5,715,000
Net Earnings per Unit	$ 0.22	$ 0.24	$ 0.55	$ 0.45
Distributions per Unit	$ 0.40	$ 0.38	$ 0.81	$ 0.71
Diluted Units	13,369,257	13,368,405	13,369,257	12,589,042
Daily Oil and NGL Production (bbls)	2,382	2,505	2,391	2,341
Daily Gas Production (MCF)	4,297	4,408	4,478	3,787
Daily BOE (6:1)	3,098	3,240	3,137	2,972
Average Oil Price ($/bbl)	$ 37.91	$ 36.94	$ 40.92	$ 36.59
Average Gas Price ($/MCF)	$ 5.45	$ 3.89	$ 5.56	$ 3.72
Average BOE Price ($/BOE)	$ 36.71	$ 33.86	$ 39.13	$ 33.56

(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 six 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 six months of 2003 were $0.81 per unit compared to $0.71 for the first six months of 2002.

If commodity prices remain approximately the same the Trust expects that cash flow per unit will increase in the second half of 2003 due to larger production volumes and reduction in hedging losses. These changes would result in the Trust continuing its monthly distribution near the same levels as the second quarter and still have cash flow available to pay for a good portion of its 2003 capital projects.

A DISCUSSION OF FINANCIAL AND OPERATIONAL RESULTS

Net revenue (net of royalties) was $19,354,000 in the first half of 2003 compared to $16,608,000 for the six months ended June 30, 2002. Cash flow from operations was

$11,125,000 for the six months ended June 30, 2003 verses $8,786,000 for the corresponding half of 2002. Net earnings for the six months ended June 30, 2003 was $7,368,000 an increase of $1,653,000 or approximately 29 percent over the first half of 2002. The increases were due to increased commodity prices and production volumes.

Average daily production volume for the six months ended June 30, 2003 was 3,137 BOE's per day. Production consists of 2,391 barrels per day of crude oil and natural gas liquids and 4,478 MCF per day of natural gas. Bonterra's first half 2002 average production was 2,972 BOE's per day consisting of 2,341 barrels per day of crude oil and natural gas liquids and 3,787 MCF per day of natural gas. Increases were due to the merger with Comstate Resources Income Trust on February 1, 2002, acquisition of producing properties on July 1, 2002 and the Trusts successful drill program. The production decline from the first quarter of 2003 was primarily due to the longer than anticipated spring road bans which delayed maintenance, repairs and capital projects longer than normal. Gas plant turnarounds in the Pembina area of Alberta also resulted in natural gas production reduction in the second quarter of 2003.

Gross revenue from petroleum and natural gas sales was $22,109,000 (2002 - $18,126,000). The average price received for crude oil and natural gas liquids during the first half of 2003 was $40.92 per barrel and $5.56 per MCF for natural gas compared to $36.59 per barrel and $3.72 per MCF in the corresponding 2002 period. The Trust incurred a $2,662,000 hedging loss during the first half of 2003. This compares to a hedging gain of $438,000 for the first six 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 six months ended June 30, 2003 were $7,150,000 compared to $7,103,000 for the six months ended June 30, 2002. On a BOE basis operating costs averaged $12.59 in 2003 verses $13.20. The Trust continues to focus on means of reducing overall operating costs through facility optimization as well as cost reduction measures. Operating cost increases in the second quarter of 2003 compared to the first quarter of 2003 were primarily due to large plant turnaround costs as well as significant maintenance costs in June in the Dodsland area of Saskatchewan.

General and administrative expenses, were $747,000 in the first six months of 2003 compared to $584,000 in the six months ended June 30, 2002. Costs on a BOE basis increased marginally to $1.32 per BOE in the first half of 2003 from $1.09 per BOE in the first half 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 $105,000 in employee compensation expenses for additional staff.

Interest expense increased to $445,000 for the six months ended June 30, 2003 compared to $271,000 for the six months ended June 30, 2002. Increased debt levels as well as an increase of one 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 approximately 11 months. This is well below the average for oil and gas trusts.

Provision for depletion, depreciation and future site restoration was $3,799,000 and $3,851,000 for the six month periods ending June 30, 2003 and June 30, 2002 respectively. The provision, although relatively unchanged, incorporates increases as a result of the February 1, 2002 acquisition of Comstate Resources Income Trust but is offset by decreases resulting from increases in reserves in our January 1, 2003 independent engineering review.

During the first half of 2003, the Trust incurred capital costs of $1,573,000 consisting primarily of $730,000 for drilling and completing several minor interest non-operated oil wells, $384,000 for drilling and completing two operated natural gas wells that commenced production in April 2003, and various other small capital projects.

OUTLOOK

There continues to be more and more industry and government optimism with regard to the development on an economic basis of coal bed methane in the Western Sedimentary Basin. Bonterra shares this optimism with regard to its large land base in the Pembina area of West Central Alberta. 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. This project has the potential to provide a significant impact on the Trust's future cash flow and therefore Bonterra will continue to study and evaluate the production from this large energy source.

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 June 30	Three Months Ended June 30		Six Months Ended June 30	
	2003	**2002**	**2003**	**2002**
Revenue				
Oil and gas sales, net of royalties	$9,108,000	$9,128,000	$19,354,000	$16,608,000
Production costs	(3,880,000)	(3,977,000)	(7,150,000)	(7,103,000)
Alberta royalty tax credits	51,000	42,000	121,000	73,000
Interest and other	4,000	28,000	8,000	35,000
	5,283,000	5,221,000	12,333,000	9,613,000
Expenses				
General and administrative	280,000	265,000	747,000	530,000
Management fees	-	-	-	54,000
Interest on long-term debt	269,000	149,000	445,000	271,000
	549,000	414,000	1,192,000	855,000
Cash Flow from Operations before				
Current Taxes	4,734,000	4,807,000	11,141,000	8,758,000
Depletion, depreciation and				
future site restoration	1,928,000	2,189,000	3,799,000	3,851,000
Earnings before Taxes	2,806,000	2,618,000	7,342,000	4,907,000
Income taxes (recovery)				
Current	13,000	(28,000)	16,000	(28,000)
Future	(155,000)	(615,000)	(42,000)	(780,000)
	(142,000)	(643,000)	(26,000)	(808,000)
Net Earnings for the Period	2,948,000	3,261,000	7,368,000	5,715,000
Accumulated earnings at				
beginning of period	22,261,000	7,820,000	17,841,000	5,366,000
Accumulated Earnings at				
End of Period	$25,209,000	$11,081,000	$25,209,000	$11,081,000
Net Earnings per Trust Unit,				
Basic and Diluted	$0.22	$0.24	$0.55	$0.45

(Unaudited)

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Periods Ended June 30	Three Months Ended June 30 2003	2002	Six Months Ended June 30 2003	2002
Operating Activities				
Net earnings for the period	$2,948,000	$3,261,000	$7,368,000	$5,715,000
Items not affecting cash				
Depletion, depreciation				
and future site restoration	1,928,000	2,189,000	3,799,000	3,851,000
Future income taxes	(155,000)	(615,000)	(42,000)	(780,000)
Cash Flow from Operations	4,721,000	4,835,000	11,125,000	8,786,000
Change in non-cash operating				
working capital items				
Accounts receivable	862,000	(251,000)	481,000	(282,000)
Inventories	18,000	9,000	(12,000)	(12,000)
Prepaid Expenses	(254,000)	(218,000)	(301,000)	(119,000)
Accounts payable and				
accrued liabilities	(1,044,000)	499,000	(875,000)	608,000
	(418,000)	39,000	(707,000)	195,000
Cash Provided by Operating Activities	4,303,000	4,874,000	10,418,000	8,981,000
Financing Activities				
Increase in long-term debt	2,168,000	486,000	2,603,000	2,116,000
Unit issue costs	-	-	-	(92,000)
Unit distributions payable upon merger	-	-	-	(795,000)
Unit distributions	(5,481,000)	(5,080,000)	(10,561,000)	(8,329,000)
Cash Used in Financing Activities	(3,313,000)	(4,594,000)	(7,958,000)	(7,100,000)
Investing Activities				
Property and equipment expenditures	(1,055,000)	(414,000)	(1,573,000)	(1,573,000)
Bank indebtedness assumed				
upon merger	-	-	-	(116,000)
Cash Used in Investing Activities	(1,055,000)	(414,000)	(1,573,000)	(1,689,000)
Net Cash Inflow (Outflow)	(65,000)	(134,000)	887,000	192,000
Bank Indebtedness, Beginning of Period	(321,000)	(122,000)	(1,273,000)	(448,000)
Bank Indebtedness, End of Period	($386,000)	($256,000)	($386,000)	($256,000)

(Unaudited)

CONSOLIDATED BALANCE SHEETS

As at June 30, 2003 and December 31, 2002	2003	2002
Assets		
Current		
Accounts receivable	$5,414,000	$5,895,000
Inventories	334,000	322,000
Prepaid expenses	814,000	513,000
Investments (at cost; quoted market value at		
June 30, 2003 - $1,435,000		
December 31, 2002 - $724,000)	461,000	461,000
Total Current Assets	7,023,000	7,191,000
Property and Equipment (Note 2)		
Petroleum and natural gas properties		
and related equipment	83,085,000	81,609,000
Accumulated depletion and depreciation	(15,616,000)	(12,383,000)
Net Property and Equipment	67,469,000	69,226,000
	$74,492,000	$76,417,000
Liabilities		
Current		
Bank indebtedness	$386,000	$1,273,000
Distributions payable	-	1,471,000
Accounts payable and accrued liabilities	4,574,000	5,449,000
Current portion of long-term debt (Note 3)	20,960,000	10,357,000
Total Current Liabilities	25,920,000	18,550,000
Long-Term Debt (Note 3)	-	8,000,000
Future Income Tax Liability	134,000	175,000
Future Site Restoration	8,268,000	7,800,000
Total Liabilities	34,322,000	34,525,000
Unitholders' Equity (Note 4)		
Unit capital	49,607,000	49,607,000
Accumulated earnings	25,209,000	17,841,000
Accumulated cash distributions	(34,646,000)	(25,556,000)
Total Unitholders' Equity	40,170,000	41,892,000
	$74,492,000	$76,417,000

(Unaudited)

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

For the Periods Ended June 30	Three Months Ended June 30 2003	2002	Six Months Ended June 30 2003	2002
Unitholders' equity, beginning of period	$42,703,000	$48,181,000	$41,892,000	$11,388,000
Net earnings for the period	2,948,000	3,261,000	7,368,000	5,715,000
Net capital contributions	-	-	-	36,632,000
Cash distributions	(5,481,000)	(5,080,000)	(9,090,000)	(7,373,000)
Unitholders' Equity, End of Period	$40,170,000	$46,362,000	$40,170,000	$46,362,000

(Unaudited)

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

	June 30, 2003 Cost	June 30, 2003 Accumulated Depletion and Depreciation	December 31, 2002 Cost	December 31, 2002 Accumulated Depletion and Depreciation
Undeveloped land	$ 98,000	$ -	$ 65,000	$ -
Petroleum and natural gas properties and related equipment	82,341,000	15,468,000	80,908,000	12,277,000
Furniture, equipment and other	646,000	148,000	636,000	106,000
	$ 83,085,000	$15,616,000	$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. 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 June 30, 2003, the Trust had an outstanding balance under the facility of $12,960,000 (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 six month period ended June 30, 2003 for this loan was $285,000 (six months ended June 30, 2002 - $170,000).

As at June 30, 2003, the Trust has a balance payable of $8,000,000 (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 has been reclassified as short-term as the Trust has approved a Comaplex request to repay the entire loan amount on or prior to October 1, 2003. Cash interest paid during the six months ended June 30, 2003 for this loan was $160,000 (six months ended June 30, 2002 - $101,000).

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, June 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 has the following commodity hedging agreements for a portion of its future production:

Period of Agreement	Commodity	Volume per day	Index	Price (Cdn.)
July 1, 2003 to September 30, 2003	Crude Oil	600 barrels	WTI	$40.06 per barrel
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
July 1, 2003 to September 30, 2003	Crude Oil	400 barrels	WTI	$45.00 per barrel
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 June 30, 2003, the Trust declared its distribution of $0.13 per unit payable on July 31, 2003 to unitholders of record on July 15, 2003. The distribution represents income earned in the Trust in the month of June 2003.

(Unaudited)

Bonterra
Energy Income Trust

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