Bonterra
Energy Income Trust

2003 INTERIM REPORT

For the three months ended March 31, 2003

HIGHLIGHTS

For the three months ended	March 31, 2003	December 31, 2002	March 31, 2002
Net Revenue	$10,246,000	$ 9,781,000	$ 7,480,000
Cash Flow From Operations	$ 6,404,000	$ 5,515,000	$ 3,951,000
Cash Flow Per Unit	$0.48	$0.42	$0.34
Net Earnings	$ 4,420,000	$ 4,043,000	$ 2,454,000
Net Earnings Per Unit	$0.33	$0.31	$0.21
Debt	$18,792,000	$18,357,000	$16,270,000
Oil and NGL's- Barrels Per Day	2,400	2,571	2,175
- Average Price ($/Bbl.)	$43.94	$46.54	$36.19
Gas - MCF Per Day	4,661	4,605	3,159
- Average Price ($/MCF)	$5.66	$4.99	$3.47
Average Price Per BOE	$41.49	$42.72	$33.19

Distributions made on earnings for the first three months of 2003 were $0.41 (Q4-2002: $0.35;Q1-2002: $0.33) per unit.

REPORT TO UNITHOLDERS

Bonterra Energy Income Trust (the Trust) is pleased to report its results for the first quarter of 2003. The Trust has been successful in generating substantial increases in net revenue, cash flow and net income on a gross and per unit basis. Cash distributions for the first quarter of 2003 were $0.41 per unit compared to $0.33 for the first quarter of 2002.

Production volumes for the 2003 period were 3,177 barrels of oil equivalent (BOE's) per day compared to 2,702 BOE's per day for the comparable 2002 period. Our target for the first quarter of 2003 was approximately 150 BOE's per day more, however, gas plant processing problems, and delays in pipeline connections resulted in shut-ins of existing production and delays in new production. It is anticipated that production volumes will increase for the remainder of 2003.

The Trust is continuing its assessment and evaluation of its coal bed methane project in the Pembina property. During the first quarter, the Trust applied for a reduction to 160 acre drill spacing units. This reduction, from the present 640 acre spacing units, will enable the Trust to more aggressively drill this area during the balance of 2003. The Trust will also continue with its shallow gas drilling in the Pembina area. The majority of the Trust's capital expenditures in 2003 will be directed to these properties.

A DISCUSSION OF FINANCIAL AND OPERATIONAL RESULTS

Net revenue (net of royalties) was $10,246,000 in the first quarter of 2003 compared to $7,480,000 for the three months ended March 31, 2002. Cash flow from operations was $6,404,000 for the three months ended March 31, 2003 verses $3,951,000 for the corresponding quarter of 2002. Net earnings for the three months ended March 31, 2003 was $4,420,000 an increase of $1,966,000 or approximately 80 percent over the first quarter of 2002. The increases were due to the increased commodity prices and production volumes.

Average daily production volume for the three months ended March 31, 2003 was 3,177 BOE's per day. Production consists of 2,400 barrels per day of crude oil and natural gas liquids and 4,661 MCF per day of natural gas. Bonterra's first quarter 2002 average production was 2,702 BOE's per day consisting of 2,175 barrels per day of crude oil and natural gas liquids and 3,159 MCF per day of natural gas. Increases were due to the merger with Comstate Resources Income Trust effective February 1, 2002, acquisition of producing properties on July 1, 2002 and the Trusts successful drill program. The production decline from the fourth quarter of 2002 was primarily due to a decline of approximately 100 barrels per day in production due to difficulties in accessing wells from the Trust's Dodsland production, gas plant shut-ins and pipeline construction delays (all of which should improve in the second quarter).

Gross revenue from petroleum and natural gas sales was $11,910,000 (2002 - $8,098,000). The average price received for crude oil and natural gas liquids during the first quarter of 2003 was $43.94 per barrel and $5.66 per MCF for natural gas compared to $36.19 per barrel and $3.47 per MCF in the corresponding 2002 period. The Trust incurred a $2,022,000 hedging loss during the first quarter of 2003. With the recent decline in crude oil prices, the Trusts future hedging agreements for crude oil are all currently in the money. However, the Trust's natural gas hedges, excluding the November 1, 2003 to March 31, 2004, are below the AECO current future price curve. Please see note four to the financial statements for a current listing of the Trust's outstanding hedging agreements.

The Trust is pleased to report a decline in its per barrel produced operating costs. Operating costs for the three months ended March 31, 2003 were $3,270,000 compared to $3,126,000 for the three months ended March 31, 2002. On a barrel of oil equivalent (BOE) basis operating costs averaged $11.44 in 2003 verses $12.85 in 2002. The Trust continues to focus on means of reducing overall operating costs through facility optimization as well as cost reduction measures and it expects that operating costs will decline on a comparative basis for the balance of the year.

General and administrative expenses were $467,000 in the first quarter of 2003 compared to $319,000 in the three months ended March 31, 2002. Costs on a BOE bases increased to $1.63 per BOE in the first quarter of 2003 from $1.31 per BOE in the first quarter 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 $50,000 in employee compensation expenses.

Interest expense increased to $176,000 for the three months ended March 31, 2003 compared to $122,000 for the three months ended March 31, 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.

Provision for depletion, depreciation and future site restoration was $1,871,000 and $1,662,000 for the three month periods ending March 31, 2003 and March 31, 2002 respectively. The increase was primarily due to the merger with Comstate Resources Income Trust effective February 1, 2002.

During the first quarter of 2003, the Trust incurred capital costs of $518,000 consisting primarily of $178,000 for drilling and completing several minor interest non-operated oil wells, $100,000 for drilling and completing two operated natural gas wells which came on production in early April 2003, $97,000 for recompletion costs on conversion of previous Belly River oil wells into shallow gas producers and $33,000 in acquisition of new land.

OUTLOOK

It is difficult to project distributions for the balance of the year since they are so sensitive to commodity price changes. The industry is presently experiencing reductions in oil and natural gas prices to the $25 U.S. range for West Texas intermediate and the $6.00 Cdn. range for natural gas. Oil prices have also been negatively affected by the strong Canadian dollar. It is expected that some of these reductions will be offset by higher production volumes.

The Trust will continue to maximize distributions on a long term basis by operating its production on a conservative basis to maximize recovery, by controlling its costs and by forward selling a portion of its production at opportune times.

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 three months ended March 31	2003	2002
Revenue		
Oil and gas sales, net of royalties	$10,246,000	$7,480,000
Production costs	(3,270,000)	(3,126,000)
Alberta royalty tax credits	70,000	31,000
Interest and other	4,000	7,000
	7,050,000	4,392,000
Expenses		
General and administrative	467,000	265,000
Management fees	-	54,000
Interest on long-term debt	176,000	122,000
	643,000	441,000
Cash Flow from Operations before Current Taxes	6,407,000	3,951,000
Depletion, depreciation and future site restoration	1,871,000	1,662,000
Earnings before Income Taxes	4,536,000	2,289,000
Income Taxes (Recovery)		
Current	3,000	-
Future	113,000	(165,000)
	116,000	(165,000)
Net Earnings for the Period	4,420,000	2,454,000
Accumulated income at beginning of period	17,841,000	5,366,000
Accumulated Income at End of Period	$22,261,000	$7,820,000
Net Earnings Per Trust Unit, Basic and Diluted	$0.33	$0.21

Subject to Year-end Audit and Adjustments

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended March 31	2003	2002
Operating Activities		
Net earnings for the period	$4,420,000	$2,454,000
Items not affecting cash		
Depletion, depreciation and future site restoration	1,871,000	1,662,000
Future income taxes	113,000	(165,000)
Cash Flow from Operations	6,404,000	3,951,000
Change in non-cash operating working capital items		
Accounts receivable	(381,000)	(31,000)
Inventories	(30,000)	(21,000)
Prepaid expenses	(47,000)	99,000
Accounts payable and accrued liabilities	169,000	109,000
	(289,000)	156,000
Cash Provided by Operating Activities	6,115,000	4,107,000
Financing Activities		
Increase in long-term debt	435,000	1,630,000
Unit issue costs	-	(92,000)
Unit distributions payable upon merger	-	(795,000)
Unit distributions	(5,080,000)	(3,249,000)
Cash Used in Financing Activities	(4,645,000)	(2,506,000)
Investing Activities		
Property and equipment expenditures	(518,000)	(1,159,000)
Bank indebtedness assumed on merger	-	(116,000)
Cash Used in Investing Activities	(518,000)	(1,275,000)
Net Cash Inflow	952,000	326,000
Bank indebtedness, beginning of period	(1,273,000)	(448,000)
Bank Indebtedness, End of Period	($321,000)	($122,000)

Subject to Year-end Audit and Adjustments

CONSOLIDATED BALANCE SHEETS

As at March 31, 2003 and December 31, 2002	2003	2002
Assets		
Current		
Accounts receivable	$6,276,000	$5,895,000
Inventories	352,000	322,000
Prepaid expenses	560,000	513,000
Investments (at cost; quoted market value at		
March 31, 2003 - $966,000		
December 31, 2002 - $724,000)	461,000	461,000
Total Current Assets	7,649,000	7,191,000
Property and Equipment (Note 2)		
Petroleum and natural gas properties		
and related equipment	82,108,000	81,609,000
Accumulated depletion and depreciation	(13,979,000)	(12,383,000)
Net Property and Equipment	68,129,000	69,226,000
	$75,778,000	$76,417,000
Liabilities		
Current		
Bank indebtedness	$321,000	$1,273,000
Distributions payable	-	1,471,000
Accounts payable and accrued liabilities	5,618,000	5,449,000
Current portion of long-term debt	10,792,000	10,357,000
Total Current Liabilities	16,731,000	18,550,000
Long-Term Debt	8,000,000	8,000,000
Future Income Tax Liability	286,000	175,000
Future Site Restoration	8,058,000	7,800,000
Total Liabilities	33,075,000	34,525,000
Unitholders' Equity (Note 3)		
Capital contributions	49,607,000	49,607,000
Accumulated income	22,261,000	17,841,000
Accumulated cash distributions	(29,165,000)	(25,556,000)
Total Unitholders' Equity	42,703,000	41,892,000
	$75,778,000	$76,417,000

Subject to Year-end Audit and Adjustments

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

For the three months ended March 31	2003	2002
Unitholders' equity, beginning of period	$41,892,000	$11,388,000
Net earnings for the period	4,420,000	2,454,000
Net capital contributions	-	36,632,000
Cash distributions	(3,609,000)	(2,293,000)
Unitholders' Equity, End of Period	$42,703,000	$48,181,000

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

	March 31, 2003		December 31, 2002	
	Cost	Accumulated Depletion and Depreciation	Cost	Accumulated Depletion and Depreciation
Undeveloped Land	$ 98,000	$ -	$ 65,000	$ -
Petroleum and natural gas properties and related equipment	81,366,000	13,852,000	80,908,000	12,277,000
Furniture, equipment and other	644,000	127,000	636,000	106,000
	$ 82,108,000	$13,979,000	$81,609,000	$12,383,000

3. 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, March 31, 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.

4. COMMITMENTS – FUTURE SALES AGREEMENTS

The Trust has the following commodity hedging agreements for a portion of its 2003 and 2004 production:

Period of Agreement	Commodity	Volume per day	Index	Price (Cdn.)
April 1, 2003 to June 30, 2003	Crude Oil	400 barrels	WTI	$40.00 per barrel
April 1, 2003 to June 30, 2003	Crude Oil	600 barrels	WTI	$40.05 per barrel
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
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

5. SUBSEQUENT EVENT – DISTRIBUTIONS

Subsequent to March 31, 2003, the Trust declared its distribution of $0.14 per unit payable on April 30, 2003 to unitholders of record on April 15, 2003. The distribution represents income earned in the Trust in the month of March 2003.

Bonterra
Energy Income Trust

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