Bonterra Energy Corp.

First Quarter 2010

HIGHLIGHTS

For the three months ended ($ 000s except $ per share)	**March 31, 2010**	December 31, 2009	March 31, 2009
FINANCIAL			
Revenue – realized oil and gas sales	**27,248**	24,946	19,300
Funds flow [3]	**21,326**	37,595	8,376
Per share – basic	**1.14**	2.07	0.49
Per share – diluted	**1.11**	2.06	0.49
Payout ratio [1]	**50%**	24%	74%
Cash flow from operations	**15,073**	13,673	6,632
Per share – basic	**0.81**	0.76	0.38
Per share – diluted	**0.79**	0.75	0.38
Payout ratio [1]	**70%**	66%	94%
Cash dividends per share [1]	**0.57**	0.50	0.36
Net earnings	**12,040**	52,136	6,093
Per share – basic	**0.64**	2.88	0.35
Per share – diluted	**0.63**	2.85	0.35
Capital expenditures and acquisitions net of dispositions	**15,141**	(16,976)	2,696
Total assets	**305,440**	293,987	260,732
Working capital deficiency	**13,178**	10,162	14,909
Bank debt	**63,097**	59,823	89,383
Shareholders' equity	**125,392**	118,874	56,377
OPERATIONS			
Oil and NGLs – barrels per day	**3,345**	3,182	3,268
– average price ($ per barrel)	**74.88**	68.40	45.80
Natural gas – MCF per day	**10,038**	10,193	11,877
– average price ($ per MCF)	**5.11**	4.76	5.19
Total barrels of oil equivalent per day (BOE) [2]	**5,018**	4,881	5,245

[1] Cash payments per share are based on payments made in respect of production months within the quarter.
[2] BOE is 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.
[3] Funds flow is not a recognized measure under GAAP. For these purposes, the Company defines funds flow as funds provided by operations before changes in non-cash operating working capital items but including gain on sale of property, adjustments of investment tax credit receivable and excluding restricted cash and asset retirement expenditures.

REPORT TO SHAREHOLDERS

Bonterra Energy Corp. ("Bonterra" or "the Company") is pleased to report its operating and financial results for the three months ended March 31, 2010. During the first quarter of the year, Bonterra continued to focus on the accelerated development of its horizontal drilling program targeting the Pembina Cardium, improving its financial performance and providing superior value to its shareholders.

Operations

Production in the first quarter of 2010 averaged 5,018 BOE per day, an increase of approximately three percent quarter over quarter. This modest increase is mainly attributable to additional production associated with the fourth quarter 2009 drill program and was offset by the Company's disposition of approximately 235 BOE per day of production in non-core areas during the fourth quarter of 2009 and first quarter of 2010. These sales reduced the quarter over quarter production increase from eight percent to three percent.

Bonterra's 2010 capital development program is focused on its Pembina Cardium horizontal drilling program and capital expenditures for the year are estimated at $50 million, net of drilling credits (increased from an initial budget of $37 million). The majority of the planned 20 to 30 wells will be located within the Halo area of its property. However, the Company also plans to conduct some drilling in the main portion of the pool with the objective of converting some potential vertical locations to horizontal locations.

To date, the Company is pleased and excited with its development of this area. Bonterra is constantly increasing its knowledge and understanding of the Cardium development and the ability to extract a larger percentage of the original-oil-in-place in both the Halo area and main part of the Pembina Cardium pool. For more details kindly refer to the Company's website at www.bonterraenergy.com.

During the first quarter, Bonterra spent approximately $20.7 million primarily on the drilling of nine gross (eight net) Pembina Cardium horizontal wells. Of these wells, only one was on production prior to quarter-end and thus had little impact on first quarter production numbers. Currently, eight of these wells have now been placed on production with the last well expected to be completed and tied-in as soon as spring break-up is complete and road bans are lifted. The summer drill program will recommence at this time as well.

The Company believes that the development of this play is important for future growth and for generating long-term value for shareholders. Bonterra continues to forecast 2010 production levels between 5,700 and 6,000 BOE per day.

Financial

Financial results during the first quarter substantially improved due to increased production levels and strengthening commodity prices, most notably in crude oil. Revenue and cash flow from operations increased 63 percent and 128 percent, respectively when compared to the same period in 2009. Crude oil prices improved approximately 64 percent while natural gas prices decreased approximately two percent over the same time frame. Quarter over quarter saw continued improvements, again due mainly to the healthier commodity pricing environment which included a modest gain in natural gas prices.

Bonterra's netbacks have also shown improvements with a 13 percent increase to $34.38 per BOE in the first quarter of 2010 compared with $29.57 per BOE in the fourth quarter of 2010. Netbacks have been positively impacted by commodity prices. In addition, Bonterra has decreased both field operating costs and general and administrative costs quarter over quarter which has also contributed to these enhanced levels.

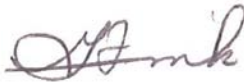
Dividends

As a result of the Company's improved financial results, Bonterra was able to increase the dividend to shareholders beginning with an increase to $0.18 per share for the January 29, 2010 dividend payment from $0.16 per share previously. Bonterra has subsequently increased the dividend once again to its current level of $0.21 per share beginning with the April 30, 2010 dividend payment.

Dividend payments to shareholders in respect of first quarter 2010 operations totaled $0.57 per share with a payout ratio of 50 percent of funds flow. Management and the Board of Directors monitor production volumes, commodity prices, operating costs, payout ratios and capital expenditures on a monthly basis to determine the dividend amount. Bonterra currently intends to pay out between 60 to 75 percent of its cash flow while retaining the remainder for capital expenditure requirements. Considering the Company's aggressive capital expenditures for 2010, it is anticipated that production volumes may increase in subsequent quarters. Monthly dividends will continue to be influenced by production volumes and commodity prices.

Outlook

The Company intends to continue its strategic approach to developing its asset base through the allocation of capital to its high return Pembina Cardium horizontal drilling program, the active pursuit of improved reserve recovery and continued improvements in ongoing operations. This approach will ensure that Bonterra remains well-positioned to continue paying a high dividend while maintaining the long-term sustainability of its business and providing increased returns to its shareholders.



George F. Fink
Chief Executive Officer and Director

Randy M. Jarock
President and Chief Operating Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following report dated May 11, 2010 is a review of the operations and current financial position for the three months ended March 31, 2010 for Bonterra Energy Corp. (Bonterra or the Company) and should be read in conjunction with the unaudited financial statements, including the notes related thereto, and the audited financial statements for the fiscal year ended December 31, 2009, together with the notes related thereto.

Non-GAAP Measures

Throughout this Management's Discussion and Analysis (MD&A) we use the terms "payout ratio" and "cash netback" to analyze operating performance. We calculate payout ratio by dividing cash dividends to shareholder by cash flow from operating activities both of which are measures prescribed by GAAP which appear on our consolidated statements of cash flows. We calculate cash netback by dividing various operation and deficit statement items as determined by GAAP by total production on a barrel of oil equivalent basis.

Forward-looking Information

Certain statements contained in this MD&A include statements which contain words such as "anticipate", "could", "should", "expect", "seek", "may", "intend", "likely", "will", "believe" and similar expressions, relating to matters that are not historical facts, and such statements of our beliefs, intentions and expectations about development, results and events which will or may occur in the future, constitute "forward-looking information" within the meaning of applicable Canadian securities legislation and are based on certain assumptions and analysis made by us derived from our experience and perceptions. Forward-looking information in this MD&A includes, but is not limited to: expected cash provided by continuing operations; cash dividends; future capital expenditures, including the amount and nature thereof; oil and natural gas prices and demand; expansion and other development trends of the oil and gas industry; business strategy and outlook; expansion and growth of our business and operations; and maintenance of existing customer, supplier and partner relationships; supply channels; accounting policies; credit risks; and other such matters.

All such forward-looking information is based on certain assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in the circumstances. The risks, uncertainties, and assumptions are difficult to predict and may affect operations, and may include, without limitation: foreign exchange fluctuations; equipment and labour shortages and inflationary costs; general economic conditions; industry conditions; changes in applicable environmental, taxation and other laws and regulations as well as how such laws and regulations are interpreted and enforced; the ability of oil and natural gas companies to raise capital; the effect of weather conditions on operations and facilities; the existence of operating risks; volatility of oil and natural gas prices; oil and gas product supply and demand; risks inherent in the ability to generate sufficient cash flow from operations to meet current and future obligations; increased competition; stock market volatility; opportunities available to or pursued by us; and other factors, many of which are beyond our control.

Actual results, performance or achievements could differ materially from those expressed in, or implied by, this forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do, what benefits will be derived there from. Except as required by law, Bonterra disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

The forward-looking information contained herein is expressly qualified by this cautionary statement.

FINANCIAL AND OPERATIONAL DISCUSSION

Quarterly Comparisons

	2010	2009			
Financial ($ 000s except $ per share)	Q1	Q4	Q3	Q2	Q1
Revenue – realized oil and gas sales	27,248	24,946	20,965	20,501	19,300
Cash flow from operations	15,073	13,673	9,350	9,238	6,632
Per share – basic	0.81	0.76	0.50	0.52	0.38
Per share – diluted	0.79	0.75	0.50	0.52	0.38
Cash distributions [1]	0.57	0.50	0.44	0.40	0.36
Payout Ratio [1]	70%	66%	87%	77%	94%
Net earnings	12,040	52,136	5,790	4,544	6,093
Per share – basic	0.64	2.88	0.32	0.26	0.35
Per share – diluted	0.63	2.85	0.32	0.26	0.35
Capital expenditures and acquisitions net of disposals	15,141	(16,976)	17,660	2,255	2,701
Total assets	305,440	293,987	273,543	258,393	260,732
Working capital deficiency	13,178	10,162	14,455	13,989	14,909
Bank debt	63,097	59,823	81,386	71,573	89,383
Shareholders' equity	125,392	118,874	74,025	72,332	56,377
Operations					
Oil and NGLs (barrels per day)	3,345	3,182	3,084	3,029	3,268
Natural gas (MCF per day)	10,038	10,193	10,881	11,551	11,877
Total BOE per day [2]	5,018	4,881	4,898	4,954	5,245

	2008			
Financial ($ 000s except $ per share/unit)	Q4	Q3	Q2	Q1
Revenue – realized oil and gas sales	22,613	34,226	34,398	30,493
Cash flow from operations	10,336	22,492	20,530	16,212
Per share/unit – basic	0.59	1.31	1.21	0.96
Per share/unit – diluted	0.59	1.30	1.20	0.96
Cash payments per share/unit [1]	0.62	0.96	0.84	0.70
Payout Ratio [1]	105%	73%	69%	73%
Net earnings	10,585	21,125	12,912	10,804
Per share/unit – basic	0.62	1.23	0.76	0.64
Per share/unit – diluted	0.62	1.22	0.75	0.64
Capital expenditures and acquisitions	30,405	6,038	2,543	6,421
Total assets	265,301	150,120	153,247	150,169
Working capital deficiency	23,878	47,499	57,148	57,810
Bank debt	79,910	-	-	-
Shareholders'/unitholders' equity	56,777	57,623	46,612	48,136
Operations				
Oil and NGLs (barrels per day)	3,055	2,998	3,009	3,153
Natural gas (MCF per day)	8,817	7,233	7,272	7,139
Total BOE per day [2]	4,525	4,204	4,221	4,343

[1] Cash payments per share/unit are based on payments made in respect of production months within the quarter.

[2] BOE is 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

	Three months ended		
	March 31, 2010	December 31, 2009	March 31, 2009
Crude oil and NGLs (barrels per day)	**3,345**	3,182	3,268
Natural gas (MCF per day)	**10,038**	10,193	11,877
Average BOE per day	**5,018**	4,881	5,245

Barrels of oil equivalent (BOE) 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 volumes for the first quarter of 2010 decreased approximately four percent from Q1 2009. Natural gas production was lower because of deferral of projects due to low natural gas prices. In the fourth quarter of 2009, the Company disposed of the majority of its interest in the Shaunavon area of Saskatchewan resulting in a decrease of approximately 200 BOE per day. In addition, the Company disposed of its interest in the Pinto area of Saskatchewan in February resulting in a further reduction of approximately 35 BOE per day for the quarter. Production related to Bonterra's Q4 2009 drilling program resulted in a quarter over quarter increase of approximately three percent.

The Company drilled nine gross (8.1 net) Pembina Cardium horizontal wells during the first quarter of 2010. Of these wells only one gross (one net) was on production prior to March 31, 2010. Of the remaining eight gross wells, two gross (two net) were on production as of April 1, 2010 and five gross (4.1 net) were on production as of May 1, 2010. The remaining horizontal well will be placed on production after spring breakup.

With the new wells currently on production the Company's current production is in excess of 5,700 BOE per day. It is uncertain at what rate these new wells will decline at with the limited production history.

Revenue

	Three months ended		
($)	**March 31, 2010**	December 31, 2009	March 31, 2009
Revenue – oil and gas sales (000's)	**27,248**	24,946	19,300
Average Realized Prices:			
Crude oil and NGLs (per barrel)	**74.88**	68.40	45.80
Natural gas (per MCF)	**5.11**	4.76	5.19

Revenue from petroleum and natural gas sales increased $7,948,000 from the corresponding 2009 quarter primarily due to a 63 percent increase in crude oil prices which was partially offset by a reduction in production. Quarter over quarter saw an increase in revenues of $2,302,000 due to increasing commodity prices and production volumes.

The Company's product split on a revenue basis is approximately 83 percent weighted towards crude oil and NGLs. This ratio will further increase as the Company develops its Pembina Cardium horizontal program.

Royalties

	Three months ended		
($ 000s) except $ per BOE	**March 31, 2010**	December 31, 2009	March 31, 2009
Crown royalties	**1,806**	1,451	1,364
Freehold royalties, gross overriding royalties and net carried interests	**1,025**	892	501
Total royalty expense	**2,831**	2,343	1,865
Percentage of revenue	**10.4**	9.4	9.7
$ per BOE	**6.27**	5.22	3.91

Royalties paid by the Company consist primarily of Crown royalties paid to the Provinces of Alberta, Saskatchewan and British Columbia. Most of the Company's wells are low productivity wells and therefore have low Crown royalty rates. The Company's average Crown royalty rate is approximately 6.6 percent (2009 – 7.1 percent) and approximately 3.8 percent (2009 – 2.6 percent) for other royalties.

The increase in the dollar amount and percentage of revenues for other royalties is due to several of the newly completed Pembina Horizontal wells being drilled on freehold lands. Freehold royalty rates averaged 17 percent compared to a five percent royalty rate for wells drilled on crown lands.

ALBERTA GOVERNMENT COMPETITIVENESS REVIEW

On March 11, 2010, the Government of Alberta announced it will modify conventional oil and natural gas royalties effective January 2011 to increase Alberta's competitiveness in the upstream energy sector. The current five per cent front-end royalty rate on conventional oil and natural gas will become a permanent feature of the royalty system. The maximum royalty rate for conventional oil will be reduced to 40 percent from 50 percent. The maximum royalty rate for conventional and unconventional natural gas will be reduced at higher prices from 50 to 36 percent. Other royalty incentive programs will remain in effect. Additional analysis of royalties is ongoing and will be concluded prior to finalizing the royalty curves which is expected at the end of May 2010. Management believes these changes to the royalty system should have a positive effect on cashflow but must wait until the actual royalty curves are announced to confirm this.

Production Costs

	Three months ended		
($ 000s) except $ per BOE	**March 31, 2010**	December 31, 2009	March 31, 2009
Production costs	**6,702**	6,870	7,038
$ per BOE	**14.84**	15.30	14.74

Total production costs in Q1 2010 have decreased by $336,000 over Q1 2009. The decrease is due to reduced production volumes (see Production). On a per BOE basis, production costs have remained relatively stable.

The Company's production comes primarily from low productivity wells. These wells generally have 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. The higher production costs for the Company are substantially offset by current low royalty rates of approximately 10.4 percent, which is much lower than industry average for conventional production and results in high cash netbacks on a combined basis.

The Company continues to expect gross operating costs to be approximately $7,000,000 per quarter. However, increasing production volumes resulting from the Company's 2010 Pembina Cardium horizontal drilling program should result in a significant drop in production costs on a cost per BOE basis throughout the current year.

General and Administrative (G&A) Expense

	Three months ended		
($ 000s) except $ per BOE	**March 31, 2010**	December 31, 2009	March 31, 2009
G&A Expense	**1,508**	1,623	939
$ per BOE	**3.34**	3.61	1.97

The increase in G&A expense year over year was primarily due to two factors. The principle reason for the increase was employee compensation resulting from accrued bonuses which increased approximately $428,000 in Q1 2010 compared to Q1 2009. The Company has a bonus plan that is based on three percent of earnings before taxes. The Company firmly believes that tying employee compensation (including the use of stock options) to the performance of the Company clearly aligns the interest of the employees to that of the shareholders as the employees are not given a bonus unless the Company earns a profit.

The other contributing factor to the increase was a $188,000 increase in banking related costs. These costs are anticipated to decline due to lower standby rate charges on the Company's unused portion of its credit facility. The reduction is due to Bonterra reducing its debt to cash flow level (see below), as well as a reduction in standby rates due to the signing of an amended credit facility in April of 2010.

Interest Expense

	Three months ended		
($ 000s) except $ per BOE	**March 31, 2010**	December 31, 2009	March 31, 2009
Interest Expense	**632**	738	826
$ per BOE	**1.40**	1.64	1.75

Interest charges decreased in Q1 2010 over Q1 2009 primarily due to a decrease in total outstanding debt balances of approximately 25 percent.

Effective April 9, 2010, the Company renewed its bank facility under similar terms and conditions with the exception of extending the revolving period to April 27, 2012, reducing its interest and bank fees and amending one of the material covenants (see below).

The interest rate on the renewed credit facility is calculated as follows:

	Level I	Level II	Level III	Level IV	Level V
Consolidated Total Funded Debt [1] to Consolidated Cash flow Ratio	Under 1.0:1	Over 1.0:1 to 1.5:1	Over 1.5:1 to 2.0:1	Over 2.0:1 to 2.5:1	Over 2.5:1
Canadian Prime Rate Plus [2]	100	150	175	200	250
Bankers' Acceptances Rate Plus [2]	225	275	300	325	375

[1] Consolidated total funded debt excludes related party amounts but includes working capital.
[2] Numbers in table represent basis points.

Consolidated total funded debt to consolidated cash flow ratio shall be adjusted effective as of the first day of the next fiscal quarter following the end of each fiscal quarter, with each such adjustment to be effective until the next such adjustment.

As of March 31, 2010 the Company will continue to qualify for the Level I interest rates. The revised rates, resulting from the renewed banking agreement, will apply commencing April 9, 2010 resulting in a further reduction of 50 basis points in the cost of the Company's banker acceptance borrowings.

The following is a list of the material covenants of the Company's bank facility:

- The Company is required to not exceed $120,000,000 in consolidated debt (includes negative working capital but excludes debt to related parties). As of March 31, 2010 the Company had consolidated debt of $52,775,000.
- Dividends paid in the current quarter and the three previous quarters shall not exceed 80 percent of the previous four quarters' cash flow as defined under GAAP. Dividend payments totaled $33,488,000 during the quarter and the three previous quarters while cash flow totaled $49,199,000 during the same period for an overall payout ratio of 68 percent.

Stock-Based Compensation

Stock-based compensation is a statistically calculated value representing the estimated expense of issuing employee stock options. The Company records a compensation expense over the vesting period based on the fair value of options granted to employees, directors and consultants. Based on currently outstanding options, the Company anticipates that an expense of approximately $392,000 will be recorded for the balance of 2010, $206,000 in 2011 and $16,000 in 2012.

Depletion, Depreciation, Accretion and Dry Hole Costs

The Company follows the successful efforts method of accounting for petroleum and natural gas exploration and development costs. Under this method, the costs associated with dry holes are charged to operations. For intangible capital costs that result in the addition of reserves, the Company depletes its oil and natural gas intangible assets using the unit-of-production basis by field.

For tangible assets such as well equipment, the Company now uses a 10 percent declining basis for depreciation calculation. The Company changed from the straight line basis due to the increasing reserve life index which continues to indicate a longer service life for its production assets.

Provision for depletion, depreciation and accretion was $4,791,000 and $4,614,000, respectively for the three month periods ending March 31, 2010 and March 31, 2009. The increase in the depletion amount was due primarily to increased average cost of reserves resulting from the lower percentage of proved

reserves assigned to the Company's Pembina Cardium horizontal drilling with costs of approximately $11.00 per proven BOE. The Company has capital costs of approximately $6.70 (March 31, 2009 - $6.60) per proved BOE of reserves based on the December 31, 2009 independent engineering report.

Taxes

The current tax provision relates to a resource surcharge of $46,000 (2009 - $53,000) payable by the Company to the Province of Saskatchewan. The resource surcharge is calculated as a flat percent of revenues generated from the sale of petroleum products produced in Saskatchewan. The resource surcharge rate is three percent in 2010. In 2009, a capital tax amount of $269,000 payable to the Province of Quebec was incurred due to the 2008 reorganization. The capital tax payable to the Province of Quebec was a one-time charge.

The Company has the following tax pools, which may be used to reduce taxable income in future years, limited to the applicable rates of utilization:

($ 000s)	Rate of Utilization (%)	Amount
Undepreciated capital costs	20-100	24,095
Eligible capital expenditures	7	7,265
Share issue costs	20	2,586
Canadian oil and gas property expenditures	10	21,308
Canadian development expenditures	30	72,868
Canadian exploration expenditures	100	11,140
SR&ED expenditures	100	71,350
Income tax losses carried forward [(1)]	100	222,560
		433,172

[(1)] Federal income tax losses carried forward expire in the following years; 2024 - $3,347,000, 2025 - $7,532,000, 2026 - $46,670,000, 2027 - $117,189,000, 2028 - $34,726,000, 2029 - $13,096,000.

The Company has $27,670,000 (December 31, 2009 - $27,670,000) remaining of investment tax credits that expire in the following years; 2019 - $3,469,000, 2020 - $3,059,000, 2021 - $4,667,000, 2022 - $3,909,000, 2023 - $3,155,000, 2024 - $1,995,000, 2025 - $2,257,000, 2026 - $2,405,000, 2027 - $2,009,000, 2028 - $745,000.

The Company also has $142,583,000 (December 31, 2009 - $143,061,000) of capital loss carry forwards which can only be claimed against taxable capital gains.

Net Earnings

	Three months ended		
($ 000s) except $ per share	**March 31, 2010**	December 31, 2009	March 31, 2009
Net earnings	**12,040**	52,136	6,093
$ per share – basic	**0.64**	2.88	0.35
$ per share – fully diluted	**0.63**	2.85	0.35

Net earnings increased in the first three months of 2010 by $5,947,000 (97.6 percent) from the corresponding 2009 period. Increased revenues resulted from increased commodity prices that more than offset the production volume declines. The Company returned in excess of 40 percent of its gross realized

revenues in net earnings. The Company's low capital costs combined with the Company's low production decline rates should allow for continued positive earnings even in a low commodity price environment.

Two significant factors contributing to higher Q4 2009 net earnings were the Company's recordings of the investment tax credit recovery of $27,670,000 and the sale of a portion of the Company's Shaunavon production for a gain of $24,198,000. Excluding these items (net of the 29.15 percent tax effect), net earnings were $15,388,000 in the fourth quarter of 2009. The decline from this Q4 revised figure was principally due to future tax adjustments related to the windup of the Trust and corporate reorganization that occurred on January 1, 2010.

Comprehensive Income

Other comprehensive income for 2010 consists of an unrealized gain in its investment in Wild Stream Exploration Inc. and Comaplex Minerals Corp. (Comaplex) (a related party – see below) of $2,699,000 (2009 - $181,000) due to an increase in the share price of these entities.

Cash Flow from Operations

	Three months ended		
($ 000s) except $ per share	**March 31, 2010**	December 31, 2009	March 31, 2009
Cash flow from operations	**15,073**	10,336	6,632
$ per share – basic	**0.81**	0.76	0.38
$ per share – fully diluted	**0.79**	0.75	0.38

First quarter 2010 cash flow from operations increased $8,441,000 or 128 percent compared to Q1 2009 primarily due to increased commodity prices received during the first three months of 2010 partially offset by lower production volumes. The quarter over quarter increase of $4,737,000 or 46 percent was due to both continuing increases in crude oil pricing as well as production increases.

Cash Netback

The following table illustrates the Company's cash netback from operations for the three month periods ended:

$ per Barrel of Oil Equivalent (BOE)	**March 31, 2010**	December 31, 2009	March 31, 2009
Production volumes (BOE)	**451,638**	448,892	477,495
Gross production revenue	**$ 60.33**	$ 55.50	$ 40.42
Royalties	**(6.27)**	(5.22)	(3.91)
Field operating costs	**(14.84)**	(15.30)	(14.74)
Field netback	**39.22**	34.98	21.77
General and administrative	**(3.34)**	(3.61)	(1.97)
Interest and taxes	**(1.50)**	(1.80)	(2.40)
Cash netback	**$ 34.38**	$ 29.57	$ 17.40

Related Party Transactions

The Company holds 689,682 (December 31, 2009 – 689,682) common shares in Comaplex which have a fair market value as of March 31, 2010 of $5,517,000 (December 31, 2009 - $4,827,000). Comaplex is a publically traded mineral company on the Toronto Stock Exchange. The Company's ownership in Comaplex

represents less than one percent of the issued and outstanding common shares of Comaplex. The Company has common directors and management with Comaplex.

Comaplex paid a management fee to the Company of $90,000 (2009 - $82,500). Comaplex also shares office rental costs and reimburses the Company for costs related to employee benefits and office materials. In addition, Comaplex owns 204,633 (December 31, 2009 – 204,633) common shares in the Company. Services provided by the Company include executive services (chief executive officer, president and vice president, finance duties), accounting services, oil and gas administration and office administration. All services performed are charged at estimated fair value. At March 31, 2010, Comaplex owed the Company $108,000 (December 31, 2008 - $105,000).

As of March 31, 2010, Comaplex has loaned the Company $12,000,000 (December 31, 2009 – $12,000,000). The loan is unsecured, bears interest at Canadian chartered bank prime less one quarter of a percent and has no set repayment terms. The loan can only be repaid should the Company have sufficient available borrowing limits under the Company's credit facility. Interest paid on this loan during the first quarter of 2010 was $59,000 (Q1 2009 - $3,000). This loan results in being a substantial benefit to Bonterra and to Comaplex. The interest paid to Comaplex by Bonterra is substantially lower than bank interest and for Comaplex the interest earned is substantially higher than Comaplex would receive by investing in bank instruments such as BA's or GIC's.

The Company also has a management agreement with Pine Cliff Energy Ltd. (Pine Cliff). Pine Cliff has common directors and management with the Company. Pine Cliff trades on the TSX Venture Exchange. Pine Cliff paid a management fee to the Company of $22,500 (2009 - $30,000). Services provided by the Company include executive services (president and vice president, finance duties), accounting services, oil and gas administration and office administration. All services performed are charged at estimated fair value. The Company has no share ownership in Pine Cliff. As at March 31, 2010 the Company had an account receivable from Pine Cliff of $1,000 (December 31, 2009 – $1,000).

As of March 31, 2010, the Company's CEO and major shareholder has loaned the Company $11,500,000 (December 31, 2009 - $11,500,000). The loan is unsecured, bears interest at Canadian chartered bank prime less one quarter of a percent and has no set repayment terms. The loan can only be repaid should the Company have sufficient available borrowing limits under the Company's credit facility. Interest paid on this loan during the first quarter of 2010 was $57,000 (2009 - $48,000). This loan results in being a substantial benefit to Bonterra and to the CEO. The interest paid to the CEO by Bonterra is substantially lower than bank interest and for the CEO the interest earned is substantially higher than the CEO would receive by investing in bank instruments such as BA's or GIC's.

Liquidity and Capital Resources

During the first three months of 2010, the Company incurred capital costs of $20,725,000 (2009 - $2,696,000) net of drilling credits. The costs relate primarily to the drilling, completing, tie-in and equipping of 9 (8.1 net) Pembina Cardium horizontal wells.

The Company currently has plans to spend an estimated $50,000,000 net of drilling credits on its 2010 Pembina Cardium horizontal well program. Drilling is anticipated to recommence in June after spring breakup. Bonterra anticipates funding the 2010 capital program out of cash flow, proceeds from the exercise of employee stock options, sale of investments and the Company's line of credit.

As of March 31, 2010 and December 31, 2009, the Company has a bank facility consisting of an $100,000,000 syndicated revolving credit facility and a $20,000,000 non-syndicated revolving credit facility. Amounts drawn under these facilities at March 31, 2010 were $63,097,000 (December 31, 2009 - $59,823,000). The interest rates on the outstanding debt as of March 31, 2010 were 4.00 percent and 3.65

percent on the Company's Canadian prime rate loan and Bankers' Acceptances, respectively. For information related to interest rate levels and material covenants please refer to the discussion under Interest Expense.

The Company is authorized to issue an unlimited number of common shares without nominal or par value.

Issued	Number	Amount ($ 000s)
Common Shares		
Balance, January 1, 2010	18,619,641	121,955
Issued pursuant to Company share option plan	84,300	1,728
Transfer of contributed surplus to share capital	-	54
Balance, March 31, 2010	18,703,941	123,737

The Company is authorized to issue an unlimited number of Class "A" redeemable Preferred Shares and an unlimited number of Class "B" Preferred Shares. There are currently no outstanding Class "A" redeemable preferred shares or Class "B" preferred shares.

The Company provides an option plan for its directors, officers, employees and consultants. Under the plan, the Company may grant options for up to 1,870,394 (December 31, 2009 – 1,861,964) common shares. The exercise price of each option granted equals the market price of the common shares on the date of grant and the option's maximum term is five years.

A summary of the status of the Company's stock option plan as of March 31, 2010 and December 31, 2009, and changes during the three month and twelve month periods ended on those dates is presented below:

	March 31, 2010		December 31, 2009	
	Options	**Weighted-Average Exercise Price**	Options	Weighted-Average Exercise Price
Outstanding at beginning of period	**1,330,900**	**$ 20.36**	1,390,500	$ 20.50
Options granted	**30,000**	**34.66**	33,000	14.90
Options exercised	**(84,300)**	**20.50**	(92,600)	20.50
Outstanding at end of period	**1,276,600**	**$ 20.69**	1,330,900	$ 20.36
Options exercisable at end of period	**297,600**	**$ 20.29**	370,900	$ 20.50

The following table summarizes information about options outstanding at March 31, 2010:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding At 3/31/10	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 3/31/10	Weighted-Average Exercise Price
$14.90	33,000	2.8 years	$14.90	11,000	$14.90
20.50	1,213,600	2.7 years	20.50	286,600	20.50
34.66	30,000	2.8 years	34.66	-	-
$14.90-$34.66	1,276,600	2.7 years	$20.69	297,600	$20.29

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed to ensure the information required to be disclosed by the Company is accumulated and communicated to the Company's Management, as appropriate, to allow timely decisions regarding required disclosures. The Company's Chief Executive Officer and Chief

Financial Officer have concluded, based on their evaluation as of the end of the period covered by the interim filings that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the issuer, is made known to them by others within the Company. It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objective of the control system is met.

Internal Control Update

The Company has conducted a review of its ICFR, with the conclusion that as of March 31, 2010 the Company's system of ICFR as defined under NI 52-109 is adequately designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The control framework the Company used to design its ICFR was COSO. In its review, the Company identified certain material weaknesses in internal controls over financial reporting:

1. due to the limited number of staff at the Company, it is not feasible to achieve the complete segregation of incompatible duties; and
2. due to the limited number of staff, the Company relies upon third parties as participants in the Company's internal controls over financial reporting.

The Company believes these weaknesses are mitigated by: the active involvement of senior management and the board of directors in the affairs of the Company; open lines of communication within the Company; the present levels of activities and transactions within the Company being readily transparent; the thorough review of the Company's financial statements by management, the board of directors and by the Company's auditors (annual statements only); and the establishment of a whistle-blower policy. However, these mitigating factors will not necessarily prevent a material misstatement occurring as a result of the aforesaid weaknesses in the Company's internal controls over financial reporting. A system of internal controls over financial reporting, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the internal controls over financial reporting are met. The Company has no plans for remediating the above weaknesses.

Financial Reporting Update

In December 2008, the CICA issued Section 1582, "Business Combinations", which will replace former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 with earlier adoption permitted.

In December 2008, the CICA issued Sections 1601, "Consolidated Financial Statements", and 1602, "Non-controlling Interests", which replaces existing Section 1600. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier adoption permitted. Section 1602 currently does not impact the Company as it has full controlling interest of all of its subsidiaries.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The Accounting Standards Board has confirmed the convergence of Canadian GAAP with IFRS will be effective January 1, 2011.

In the fourth quarter of 2009, the Company commenced phase two of the process of conversion to IFRS by engaging its external auditors to perform a detailed review of the of the implementation of IFRS on the Company's high impact and medium impact areas identified below:

High impact areas:

- IFRS 1 – First time adoption of IFRS
- IFRS 3 – Business combinations
- IAS 16 – Property and equipment
- IAS 36 – Impairment of assets

Medium impact areas include:

- IFRS 6 – Exploration and evaluation of mineral resources
- IFRS 2 – Share-based payments
- IAS 1 – Presentation of financial statements
- IAS 10 – Events after the balance sheet date
- IAS 12 – Income Taxes
- IAS 18 – Revenues
- IAS 23 – Borrowing costs
- IAS 39 – Financial instruments, recognition and measurement
- IAS 37 – Provisions, contingent liabilities and contingent assets

The Company in conjunction with its auditors are currently finalizing phase two with an anticipated completion date of June 30, 2010 to determine accounting policies and the resulting numerical changes to opening balance sheet items. The Company anticipates commencing phase three (financial statement and note compilation) during the third quarter of 2010. Key information will be disclosed as it becomes available during the transition period.

The impact of IFRS will be significant; however the Company has always maintained an accounting policy of successful efforts for property and equipment that will result in a major reduction in the level of conversion compared to most oil and gas companies who used the full cost accounting policy.

The Company has implemented a new financial accounting system that provides for sufficient detail to comply with the IFRS requirements. As the Company has been using successful efforts since its inception, detail at a well level has been maintained under its past and current financial accounting systems as well as procedures are in place to capture this information at the operational level.

Implications to the Company's controls for DC&P and ICFR are being reviewed; however the Company believes that the majority of the procedures in place will apply once IFRS is implemented. Training will be required and is ongoing. Individuals within the Company have been and will continue to attend courses, seminars and other training activities to ensure the Company is adequately prepared for IFRS. Use of external legal expertise will be used to ensure compliance is maintained with all contractual agreements.

Additional information relating to the Company may be found on www.sedar.com or visit our website at www.bonterraenergy.com.

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

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.

CONSOLIDATED BALANCE SHEETS

As at March 31, 2010 and December 31, 2009
(unaudited)

($ 000s)	**2010**	2009
Assets		
Current		
Accounts receivable (Note 11)	**17,212**	14,713
Crude oil inventory	**531**	431
Prepaid expenses	**3,064**	3,247
Future income tax asset (Note 8)	**11,342**	11,889
Investments	**6,892**	4,462
Investments in related party (Note 3)	**5,517**	4,827
	44,558	39,569
Restricted cash (Note 4)	**612**	812
Investment tax credit receivable (Note 8)	**27,670**	27,670
Future income tax asset (Note 8)	**48,969**	58,265
Property and Equipment (Note 5)		
Petroleum and natural gas properties and related equipment	**276,129**	255,840
Accumulated depletion and depreciation	**(92,498)**	(88,169)
Net Property and Equipment	**183,631**	167,671
	305,440	293,987
Liabilities		
Current		
Accounts payable and accrued liabilities	**25,866**	18,868
Due to related parties (Note 6)	**23,500**	23,500
Deferred credit (Note 8)	**8,370**	7,363
	57,736	49,731
Bank debt (Note 7)	**63,097**	59,823
Deferred credit (Note 8)	**41,692**	47,769
Asset retirement obligations	**17,523**	17,790
	180,048	175,113
Shareholders' Equity (Note 9)		
Share capital	**123,737**	121,955
Contributed surplus	**3,438**	3,350
	127,175	125,305
Deficit	**(6,502)**	(8,451)
Accumulated other comprehensive income (Note 10)	**4,719**	2,020
	(1,783)	(6,431)
Total Shareholders' Equity	**125,392**	118,874
	305,440	293,987

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the Three Months Ended March 31 (unaudited) ($ 000s)	**2010**	2009
Shareholders' equity, beginning of period	**118,874**	56,777
Comprehensive income for the period	**14,739**	6,274
Net capital contributions (Note 9)	**1,728**	-
Stock-based compensation	**142**	229
Dividends declared	**(10,091)**	(6,903)
Shareholders' Equity, End of Period	**125,392**	56,377

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

For the Three Months Ended March 31 (unaudited) ($000s, except $ per Share)	**2010**	2009
Revenue		
Oil and gas sales	**27,248**	19,300
Royalties	**(2,831)**	(1,865)
Gain on sale of property	**5,785**	-
Interest and other	**12**	66
	30,214	17,501
Expenses		
Production costs	**6,702**	7,038
General and administrative	**1,508**	939
Interest on debt	**632**	826
Stock based compensation	**142**	229
Depletion, depreciation and accretion	**4,791**	4,614
	13,775	13,646
Earnings Before Taxes	**16,439**	3,855
Taxes (Recovery)		
Current	**46**	322
Future	**4,353**	(2,560)
	4,399	(2,238)
Net Earnings for the Period	**12,040**	6,093
Deficit, beginning of period	**(8,451)**	(46,715)
Dividends declared	**(10,091)**	(6,903)
Deficit, End of Period	**(6,502)**	(47,525)
Net Earnings Per Share - Basic (Note 9)	**0.64**	0.35
Net Earnings Per Share - Diluted (Note 9)	**0.63**	0.35

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three Months Ended March 31 (unaudited) ($ 000s, except $ per Share)	**2010**	2009
Net Earnings for the Period	**12,040**	6,093
Other Comprehensive Income		
Unrealized gains on investments		
(net of income taxes of 2010 - $421, 2009 - $26)	**2,699**	181
Other Comprehensive Income	**2,699**	181
Comprehensive Income	**14,739**	6,274
Comprehensive Income Per Share - Basic (Note 9)	**0.79**	0.36
Comprehensive Income Per Share - Diluted (Note 9)	**0.77**	0.36

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31 (unaudited) ($000s)	2010	2009
Operating Activities		
Net earnings for the period	**12,040**	6,093
Items not affecting cash		
Stock based compensation	**142**	229
Depletion, depreciation and accretion	**4,791**	4,614
Gain on sale of property	**(5,785)**	-
Future income taxes	**4,353**	(2,560)
	15,541	8,376
Change in non-cash working capital		
Accounts receivable	**(1,168)**	1,096
Crude oil inventory	**(75)**	316
Prepaid expenses	**183**	568
Accounts payable and accrued liabilities	**510**	(3,653)
Restricted cash	**200**	-
Asset retirement obligations settled	**(118)**	(71)
	(468)	(1,744)
Cash Provided by Operating Activities	**15,073**	6,632
Financing Activities		
Increase (decrease) in debt	**3,274**	(3,852)
Due to related parties	**-**	16,000
Stock option proceeds	**1,728**	-
Dividends	**(10,091)**	(6,903)
Cash Provided by (Used in) Financing Activities	**(5,089)**	5,245
Investing Activities		
Property and equipment expenditures	**(20,675)**	(2,696)
Proceeds on sale of property	**5,534**	-
Restricted term deposit	**-**	20
Change in non-cash working capital		
Accounts payable and accrued liabilities	**6,488**	(9,201)
Accounts receivable	**(1,331)**	-
Cash Used in Investing Activities	**(9,984)**	(11,877)
Net Cash Inflow	**-**	-
Cash, beginning of period	**-**	-
Cash, End of Period	**-**	-
Cash Interest Paid	**632**	826
Cash Taxes Paid	**42**	161

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Periods Ended March 31, 2010 and 2009 (unaudited)

1. CHANGE OF ORGANIZATION

Effective January 1, 2010, the Trust was wound up into Bonterra Oil & Gas Ltd. and Bonterra Oil & Gas Ltd. was amalgamated with Bonterra Energy Corp. The continuing entity officially changed its name to Bonterra Energy Corp. (Bonterra or the Company) subsequent to finalizing the reorganization.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and methods of application followed in the preparation of the interim consolidated financial statements are the same as those followed in the preparation of Bonterra's 2009 annual consolidated financial statements except as described below. These interim consolidated financial statements do not include all disclosures required for annual consolidated financial statements. The interim consolidated financial statements as presented should be read in conjunction with the 2009 annual consolidated financial statements.

Change in Accounting Estimate

Petroleum and Natural Gas Properties and Related Equipment
On January 1, 2010 the Company prospectively depreciated petroleum and natural gas plant and equipment using the declining balance method at 10 percent per year, from the straight-line method. The change of estimate was due to declining balance depreciation providing a better reflection of the estimated service life of the related assets. The Company incurred $456,000 less depreciation under the declining balance method, than under the straight-line method.

Furniture, Equipment and Other
On January 1, 2010 the Company prospectively depreciated these assets using the declining balance method at rates of 10 percent to 20 percent per year, from the straight-line method. The change of estimate was due to declining balance depreciation providing a better reflection of the estimated service life of the related assets. The Company incurred $23,000 less depreciation under the declining balance method, than under the straight-line method.

Recent Accounting Pronouncements

In December 2008, the CICA issued Section 1582, "Business Combinations", which will replace former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 with earlier adoption permitted.

In December 2008, the CICA issued Sections 1601, "Consolidated Financial Statements", and 1602, "Non-controlling Interests", which replaces existing Section 1600. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 with earlier adoption permitted. Section 1602 currently does not impact the Company as it does not have any subsidiaries.

The Canadian Accounting Standards Board has confirmed that IFRS will replace Canadian GAAP effective January 1, 2011, including comparatives for 2010, for Canadian publicly accountable enterprises.

3. INVESTMENT IN RELATED PARTY

The investment consists of 689,682 (December 31, 2009 – 689,682) common shares in Comaplex Minerals Corp. (Comaplex), a company with common directors and management with the Company and its subsidiaries. The investment is recorded at fair market value. The common shares trade on the Toronto Stock Exchange under the symbol CMF. The investment represents less than one percent ownership in the outstanding shares of Comaplex.

4. RESTRICTED CASH

An escrow account was held by Silverwing prior to its acquisition by the Company. The escrow account was created to support eligible expenditures related to a farm-in agreement. The Company may access the funds upon completion and tie-in or abandonment and reclamation of 8 wells (December 31, 2009 - 11 wells). The funds are administered by the farmors' legal counsel. The funds in the escrow account are invested in interest bearing term deposits.

5. PROPERTY AND EQUIPMENT

	March 31, 2010		December 31, 2009	
($ 000s)	**Cost**	**Accumulated Depletion and Depreciation**	Cost	Accumulated Depletion and Depreciation
Undeveloped land	**6,251**	**-**	7,992	-
Petroleum and natural gas properties and related equipment	**268,409**	**91,462**	246,387	87,153
Furniture, equipment and other	**1,469**	**1,036**	1,461	1,016
	276,129	**92,498**	255,840	88,169

In February the Company disposed of its Southeast Saskatchewan Pinto property. The proceeds of disposition were $5,534,000 cash. At the time of disposition, the Company had a net book value of $120,000 for the property. It also had an asset retirement obligation of $371,000 that was transferred to the purchaser related to the property resulting in a gain on sale of property of $5,785,000.

6. DUE TO RELATED PARTIES

As of March 31, 2010, the Company's CEO and major shareholder has loaned the Company $11,500,000 (December 31, 2009 - $11,500,000). The loan is unsecured, bears interest at Canadian chartered bank prime less one quarter of a percent and has no set repayment terms but is payable on demand. Interest paid on this loan during the first quarter of 2010 was $57,000 (Q1 2009 - $48,000).

As of March 31, 2010, Comaplex has loaned the Company $12,000,000 (December 31, 2009 – $12,000,000). The loan is unsecured, bears interest at Canadian chartered bank prime less one quarter of a percent and has no set repayment terms but is payable on demand. Interest paid on this loan during the first quarter of 2010 was $59,000 (Q1 2009 - $3,000).

The Company's bank agreement requires that the above loans can only be repaid should the Company have sufficient available borrowing limits under the Company's credit facility

Please refer to Note 11 for additional related party transactions.

7. BANK DEBT

As of March 31, 2010 and December 31, 2009, the Company has a bank facility consisting of a $100,000,000 syndicated revolving credit facility and a $20,000,000 non-syndicated revolving credit facility. Amounts drawn under the facility at March 31, 2010 were $63,097,000 (December 31, 2009 - $59,823,000). The interest rates on the outstanding debt as of March 31, 2010 were 4.00 percent and 3.65 percent on the Company's Canadian prime rate loan and Bankers' Acceptances, respectively. The terms of the syndicated revolving credit facility provided that the loan was revolving to April 28, 2011 and is subject to annual review. The revolving credit facility had no fixed payment requirements.

Effective April 9, 2010, the Company renewed its bank facility under similar terms and conditions with the exception of extending the revolving period to April 27, 2012, reducing its interest and bank fees and amending one of the material covenants (see below).

The amount available for borrowing under the credit facilities is reduced by outstanding letters of credit. Letters of credit totaling $285,000 were issued at March 31, 2010 (December 31, 2009 - $285,000). Security for the credit facilities consists of various fixed and floating demand debentures totaling $200,000,000 over all of the Company's assets, and a general security agreement with first ranking over all personal and real property.

The interest rate on the new credit facility is calculated as follows:

	Level I	Level II	Level III	Level IV	Level V
Consolidated Total Funded Debt [1] to Consolidated Cash flow Ratio	Under 1.0:1	Over 1.0:1 to 1.5:1	Over 1.5:1 to 2.0:1	Over 2.0:1 to 2.5:1	Over 2.5:1
Canadian Prime Rate Plus [2]	100	150	175	200	250
Bankers' Acceptances Rate Plus [2]	225	275	300	325	375

[1] Consolidated total funded debt excludes related party amounts but includes working capital. Consolidated cash flow is calculated as cash flow according to GAAP adjusted for non-cash working capital items.
[2] Numbers in table represent basis points.

Consolidated total funded debt to consolidated cash flow ratio shall be adjusted effective as of the first day of the next fiscal quarter following the end of each fiscal quarter, with each such adjustment to be effective until the next such adjustment.

The following is a list of the material covenants:

- The Company is required to not exceed $120,000,000 in consolidated debt (includes working capital but excludes debt to related parties).
- Dividends paid in the current quarter and the three previous quarters shall not exceed 80 percent of the previous four quarters' cash flow as defined under GAAP.

At March 31, 2010, the Company is in compliance with all covenants.

8. TAXES

The Company has recorded a future income tax asset related to assets and liabilities and related tax amounts:

($ 000s)	**March 31 2010**	December 31 2009
Future tax liability related to investments	**(391)**	(824)
Future tax liability related to property and equipment	**(11,513)**	(5,855)
Future tax asset related to asset retirement obligations	**4,395**	4,474
Future tax asset related to finance costs	**649**	802
Future tax asset related to corporate tax losses and SR&ED claims	**55,438**	59,668
Future tax asset related to corporate capital tax loss	**17,882**	17,883
Valuation adjustment	**(17,491)**	(17,883)
Future Tax Asset – Long-term	**48,969**	58,265
Current portion of future income tax asset related to corporate tax losses and SR&ED claims	**11,342**	11,889
Future Tax Asset - Current	**11,342**	11,889

A reconciliation of the deferred credit is as follows:

($ 000s)	
Amount recorded on reorganization	71,303
Amortized in 2008	(4,240)
Amortized in 2009	(12,356)
Rate adjustment 2009	425
Balance as of December 31, 2009	55,132
Amortized in first quarter of 2010	(3,567)
Rate adjustment 2010	(1,503)
Balance as of March 31, 2010	50,062
Current portion	8,370
Long-term portion	41,692
	50,062

The Company has the following tax pools, which may be used to reduce taxable income in future years, limited to the applicable rates of utilization:

($ 000s)	Rate of Utilization (%)	Amount
Undepreciated capital costs	20-100	24,095
Eligible capital expenditures	7	7,265
Share issue costs	20	2,586
Canadian oil and gas property expenditures	10	21,308
Canadian development expenditures	30	72,868
Canadian exploration expenditures	100	11,140
SR&ED expenditures	100	71,350
Income tax losses carried forward [1]	100	222,560
		433,172

[1] Federal income tax losses carried forward expire in the following years; 2024 - $3,347,000, 2025 - $7,532,000, 2026 - $46,670,000, 2027 - $117,189,000, 2028 - $34,726,000, 2029 - $13,096,000.

The Company has $27,670,000 (December 31, 2009 - $27,670,000) remaining of investment tax credits that expire in the following years; 2019 - $3,469,000, 2020 - $3,059,000, 2021 - $4,667,000, 2022 - $3,909,000, 2023 - $3,155,000, 2024 - $1,995,000, 2025 - $2,257,000, 2026 - $2,405,000, 2027 - $2,009,000, 2028 - $745,000.

The Company also has $142,583,000 (December 31, 2009 - $143,061,000) of capital loss carry forwards which can only be claimed against taxable capital gains.

The amount and timing of reversals of temporary differences will also depend on the Company's future operating results, and acquisitions and dispositions of assets and liabilities. A significant change in any of the preceding assumptions could materially affect the Company's estimate of the future income tax asset.

9. SHAREHOLDERS' EQUITY

Authorized

The Company is authorized to issue an unlimited number of common shares without nominal or par value.

Issued	Number	Amount ($ 000s)
Common Shares		
Balance, January 1, 2010	18,619,641	121,955
Issued pursuant to Company share option plan	84,300	1,728
Transfer of contributed surplus to share capital	-	54
Balance, March 31, 2010	18,703,941	123,737

The Company is authorized to issue an unlimited number of Class "A" redeemable Preferred Shares and an unlimited number of Class "B" Preferred Shares. There are currently no outstanding Class "A" redeemable preferred shares or Class "B" preferred shares.

The number of common shares used to calculate diluted net earnings per share for the three month periods ended March 31 is as follows:

	2010	2009
Basic shares outstanding	**18,682,248**	17,257,603
Dilutive effect of share options	**539,148**	-
Diluted shares outstanding	**19,221,396**	17,257,603

A summary of the changes of the Company's contributed surplus is presented below:

Contributed surplus ($ 000s)	**2010**	2009
Balance, beginning of period	**3,350**	2,542
Stock-based compensation expensed (non-cash)	**142**	229
Stock-based options exercised (non-cash)	**(54)**	-
Balance, end of period	**3,438**	2,771

The deficit balance is composed of the following items:

($ 000s)	**March 31, 2010**	March 31, 2009
Accumulated earnings	**288,785**	214,275
Accumulated cash dividends/distributions	**(295,287)**	(261,800)
Deficit	**(6,502)**	(47,525)

The Company provides an option plan for its directors, officers, employees and consultants. Under the plan, the Company may grant options for up to 1,870,394 (December 31, 2009 – 1,861,964) common shares. The exercise price of each option granted equals the market price of the common shares on the date of grant and the option's maximum term is five years.

A summary of the status of the Company's stock option plan as of March 31, 2010 and December 31, 2009, and changes during the three month and twelve month periods ended on those dates is presented below:

	March 31, 2010		December 31, 2009	
	Options	**Weighted-Average Exercise Price**	Options	Weighted-Average Exercise Price
Outstanding at beginning of period	**1,330,900**	**$ 20.36**	1,390,500	$ 20.50
Options granted	**30,000**	**34.66**	33,000	14.90
Options exercised	**(84,300)**	**20.50**	(92,600)	20.50
Outstanding at end of period	**1,276,600**	**$ 20.69**	1,330,900	$ 20.36
Options exercisable at end of period	**297,600**	**$ 20.29**	370,900	$ 20.50

The following table summarizes information about options outstanding at March 31, 2010:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding At 3/31/10	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at 3/31/10	Weighted-Average Exercise Price
$14.90	33,000	2.8 years	$14.90	11,000	$14.90
20.50	1,213,600	2.7 years	20.50	286,600	20.50
34.66	30,000	2.8 years	34.66	-	-
$14.90-$34.66	1,276,600	2.7 years	$20.69	297,600	$20.29

The Company records compensation expense over the vesting period based on the fair value of options granted to employees, directors and consultants. In 2010, the Company granted 30,000 stock options with an estimated fair value of $164,000 ($5.48 per option) using the Black-Scholes option pricing model with the following key assumptions:

Weighted-average risk free interest rate (%)	1.9
Expected life (years)	3.0
Weighted-average volatility (%)	33.0
Dividend yield 2010	based on the percentage of dividends paid during the period granted

10. ACCUMULATED OTHER COMPREHENSIVE INCOME

($ 000s)	**January 1, 2010**	**Other Comprehensive Income**	**March 31, 2010**
Unrealized gains on available-for-sale financial assets (net of tax)	**2,020**	**2,699**	**4,719**

($ 000s)	January 1, 2009	Other Comprehensive Income	December 31, 2009
Unrealized gains on available-for-sale financial assets (net of tax)	1,420	600	2,020

11. RELATED PARTY TRANSACTIONS

The Company received a management fee from Comaplex of $90,000 (2009 - $82,500) for management services and office administration. This fee has been included as a recovery in general and administrative expenses. As at March 31, 2010, the Company had an account receivable from Comaplex of $108,000 (December 31, 2009 - $105,000).

The Company received a management fee from Pine Cliff Energy Ltd. (Pine Cliff) of $22,500 (2009 - $30,000) for management services and office administration. This fee has been included as a recovery in general and administrative expenses. As at March 31, 2010 the Company had an account receivable from Pine Cliff of $1,000 (December 31, 2009 - $1,000).

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

12. FINANCIAL AND CAPITAL RISK MANAGEMENT

Financial Risk Factors

The Company undertakes transactions in a range of financial instruments including:

- Receivables
- Restricted cash
- Payables
- Common share investments
- Due to related parties
- Bank loans

The Company's activities result in exposure to a number of financial risks including market risk (commodity price risk, interest rate risk, foreign exchange risk), credit risk, and liquidity risk.

The Company's overall risk management program seeks to mitigate these risks and reduce the volatility on the Company's financial performance. Financial risk management is carried out by senior management under the direction of the Directors of the Company.

The Company may enter into various risk management contracts in accordance with Board approval to manage the Company's exposure to commodity price fluctuations. Currently no risk management agreements are in place. The Company does not speculatively trade in risk management contracts. The Company's risk management contracts are entered into to manage the risks relating to commodity prices from its business activities.

Capital Risk Management

The Company's objectives when managing capital, which the Company defines to include shareholders' equity, debt and working capital balances, are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns to its shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends, debt facilities or issue new shares.

The Company monitors capital on the basis of the ratio of debt to cash flow. This ratio is calculated using each quarter end net debt (total debt adjusted for working capital) and divided by the preceding twelve months cash flow. The Company believes that a debt level of approximately one and a half year's cash flow is an appropriate level to allow it to take advantage in the future of either acquisition opportunities or to provide flexibility to develop its undeveloped resources by horizontal or vertical drill programs.

The following section (a) of this note provides a summary of the Company's underlying economic positions as represented by the carrying values, fair values and contractual face values of the Company's financial assets and financial liabilities. The Company's debt to cash flow from operations is also provided.

The following section (b) addresses in more detail the key financial risk factors that arise from the Company's activities including its policies for managing these risks.

The following section (c) provides details of the Company's risk management contracts that are used for financial risk management.

a) Financial assets, financial liabilities and debt ratio

The carrying amounts, fair value and face values of the Company's financial assets and liabilities are shown in Table 1.

Table 1

	As at March 31, 2010			As at December 31, 2009		
($ 000s)	**Carrying Value**	**Fair Value**	**Face Value**	Carrying Value	Fair Value	Face Value
Financial assets						
Accounts receivable	**17,212**	**17,212**	**17,357**	14,713	14,713	14,873
Investments	**6,892**	**6,892**	**N/A**	4,462	4,462	N/A
Investments in related party	**5,517**	**5,517**	**N/A**	4,827	4,827	N/A
Restricted cash	**612**	**612**	**612**	812	812	812
Financial liabilities						
Accounts payable and accrued Liabilities	**25,866**	**25,866**	**25,866**	18,868	18,868	18,868
Due to related parties	**23,500**	**23,500**	**23,500**	23,500	23,500	23,500
Long-term debt	**63,097**	**63,097**	**63,097**	59,823	59,823	59,823

Financial instruments consisting of accounts receivable, accounts payable and accrued liabilities, due to related parties and long-term debt carried on the consolidated balance sheet are carried at amortized cost. Restricted cash, investments, and investments in related party are carried at fair value. All of the fair value items are transacted in active markets. Bonterra classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Bonterra's restricted cash, investments and investments in related party have been assessed on the fair value hierarchy described above and are all considered Level 1.

The net debt and cash flow figures as of March 31, 2010 are presented in Table 2.

Table 2

($ 000s)	**March 31, 2010**
Long-term debt	**63,097**
Accounts payable and accrued liabilities	**25,866**
Due to related parties	**23,500**
Current assets [1]	**(33,216)**
Net Debt	**79,247**
Cash flow from operations [2]	**47,384**
Net debt to cash flow from operations	**1.67**

[1] Current assets include accounts receivable, crude oil inventory, prepaid expenses, investments and investment in related party.

[2] Cash flow from operations includes annual net earnings less adjustment for stock-based compensation, depletion, depreciation and accretion, gain on sale of property, future income taxes, changes in non-cash working capital items, asset retirement obligations settled and investment tax credit receivable.

b) Risks and mitigations

Market risk is the risk that the fair value or future cash flow of the Company's financial instruments will fluctuate because of changes in market prices. Components of market risk to which the Company is exposed are discussed below.

Commodity price risk

The Company's principal operation is the production and sale of crude oil, natural gas and natural gas liquids. Fluctuations in prices of these commodities directly impact the Company's performance and ability to continue with its dividends.

The Company has used various risk management contracts to set price parameters for a portion of its production. Management, in agreement with the Board of Directors, recently decided that at least in the near term it will discontinue the use of commodity price agreements. The Company will assume full risk in respect of commodity prices.

Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from interest bearing financial assets and liabilities that the Company uses. The principal exposure of the Company is on its borrowings which have a variable interest rate which gives rise to a cash flow interest rate risk.

The Company's debt facilities consists of a $100,000,000 revolving operating line, $20,000,000 demand operating line and $23,500,000 due to related parties. The borrowings under these facilities are at bank prime plus or minus various percentages as well as by means of bankers' acceptances (BA's) within the Company's credit facility. The Company manages its exposure to interest rate risk through entering into various term lengths on its BA's but in no circumstances do the terms exceed six months.

Sensitivity Analysis

Based on historic movements and volatilities in the interest rate markets and management's current assessment of the financial markets, the Company believes that a one percent variation in the Canadian prime interest rate is reasonably possible over a 12-month period.

A one percent increase (decrease) in the Canadian prime rate would decrease net earnings and comprehensive income by $623,000 (increase by $623,000).

Foreign exchange risk

The Company has no foreign operations and currently sells all its product sales in Canadian currency. The Company however is exposed to currency risk in that crude oil is priced in U.S. currency then converted to Canadian currency. The Company currently has no outstanding risk management agreements. Management, in agreement with the Board of Directors, decided that at least in the near term it will discontinue the use of commodity price agreements. The Company will assume full risk in respect of foreign exchange fluctuations.

Credit risk

Credit risk is the risk that a contracting party will not complete its obligations under a financial instrument and cause the Company to incur a financial loss. The Company is exposed to credit risk on all financial assets included on the balance sheet. To help mitigate this risk:

- The Company only enters into material agreements with credit worthy counterparties. These include major oil and gas companies or major Canadian chartered banks;
- Agreements for product sales are primarily on 30 day renewal terms; and
- Investments are generally only with companies that have common management with the Company.

Of the accounts receivable balance of March 31, 2010 ($17,212,000) and December 31, 2009 ($14,713,000) over 89 (2009 – 87) percent relates to product sales with international oil and gas companies and drilling credits receivable from the province of Alberta.

The Company assesses quarterly, if there has been any impairment of the financial assets of the Company. The Company does have a credit risk exposure as the majority of the Company's accounts receivable are with counterparties having similar characteristics. However, payments

from the Company's largest accounts receivable counterparties have consistently been received within 30 days and the sales agreements with these parties are cancellable with 30 days notice if payments are not received.

At March 31, 2010 approximately $298,000 or approximately 1.7 percent (December 31, 2009, approximately $244,000 or 1.6 percent) of the Company's total accounts receivable are aged over 120 days and considered past due. The majority of these accounts are due from various joint venture partners. The Company actively monitors past due accounts and takes the necessary actions to expedite collection, which can include withholding production or netting payables when the accounts are with joint venture partners. Should the Company determine that the ultimate collection of a receivable is in doubt, it will provide the necessary provision in its allowance for doubtful accounts with a corresponding charge to earnings. If the Company subsequently determines an account is uncollectable, the account is written off with a corresponding charge to the allowance account. The Company's allowance for doubtful accounts balance at March 31, 2010 is $145,000 (December 31, 2009 - $160,000) with the difference being included in general and administrative expenses. There were no accounts written off during the year.

The carrying value of accounts receivable approximates their fair value due to the relatively short periods to maturity on this instrument. The maximum exposure to credit risk is represented by the carrying amount on the balance sheet. There are no material financial assets that the Company considers past due.

Liquidity risk

Liquidity risk includes the risk that, as a result of the Company's operational liquidity requirements:

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will not have sufficient funds to continue with its dividends;
- The Company will be forced to sell assets at a value which is less than what they are worth; or
- The Company may be unable to settle or recover a financial asset at all.

To help reduce these risks the Company:

- Maintains a portfolio of high-quality, long reserve life oil and gas assets.

The Company has the following maturity schedule for its financial liabilities:

		Payments Due by Period		
($ 000s)	Recognized on Financial Statements	Less than 1 year	2-3 years	4-5 years
Accounts payable and accrued liabilities	Yes - Liability	25,866	-	-
Due to related parties	Yes - Liability	23,500	-	-
Long-term bank debt	Yes - Liability	-	63,097	-
Office leases	No	982	1,702	130
Total		50,348	64,799	130

c) Risk management contracts

The Company has no outstanding risk management contracts.

13. SUBSEQUENT EVENTS – DIVIDENDS

Subsequent to March 31, 2010, the Company declared a dividend of $0.21 per common share payable on April 30, 2009 to shareholders of record on April 15, 2009 and a dividend of $0.21 per common share payable on May 31, 2010 to shareholders of record on May 14, 2010.

Board of Directors

G.J. Drummond, Nassau, Bahamas
G.F. Fink, Calgary, Alberta
C.R. Jonsson, Vancouver, British Columbia
F.W. Woodward, Calgary, Alberta

Officers

G.F. Fink – Chief Executive Officer
R.M. Jarock – President and Chief Operating Officer
G.E. Schultz – Vice President, Finance, Chief Financial Officer and Secretary

Registrar & Transfer Agent

Olympia Trust Company, Calgary, Alberta

Auditors

Deloitte & Touche LLP, Calgary, Alberta

Solicitors

Borden Ladner Gervais LLP, Calgary, Alberta

Bankers

CIBC, Calgary, Alberta
The Royal Bank of Canada, Calgary, Alberta
Alberta Treasury Branch, Calgary, Alberta

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