Bonterra Energy Corp.

First Quarter 2011

HIGHLIGHTS

As at and for the three months ended ($ 000s except $ per share)	March 31, 2011	December 31, 2010 Restated [1]	March 31, 2010 Restated [1]
FINANCIAL			
Revenue – realized oil and gas sales	**38,170**	34,208	27,248
Funds flow [2]	**25,719**	21,094	21,387
Per share – basic	**1.33**	1.12	1.14
Per share – diluted	**1.31**	1.09	1.11
Payout ratio [3]	**54%**	61%	50%
Cash flow from operations	**24,034**	16,976	15,061
Per share – basic	**1.25**	0.90	0.81
Per share – diluted	**1.22**	0.88	0.78
Payout ratio [3]	**58%**	76%	70%
Cash dividends per share [3]	**0.72**	0.68	0.57
Net earnings	**13,624**	11,837	7,598
Per share – basic	**0.71**	0.62	0.41
Per share – diluted	**0.69**	0.61	0.40
Capital expenditures and acquisitions, net of dispositions	**20,344**	25,318	15,141
Total assets	**357,000**	347,825	316,018
Working capital deficiency	**39,777**	17,905	16,150
Long-term debt [4]	**70,568**	85,386	63,097
Shareholders' equity	**192,054**	190,173	182,620
OPERATIONS			
Oil and NGLs – barrels per day	**4,597**	4,378	3,345
– average price ($ per barrel)	**82.83**	75.91	74.88
Natural gas – MCF per day	**10,517**	10,214	10,038
– average price ($ per MCF)	**4.12**	3.78	5.11
Total barrels of oil equivalent per day (BOE) [5]	**6,350**	6,080	5,018

[1] The comparative highlights have been restated with the adoption of International Financial Reporting Standards.
[2] Funds flow is not a recognized measure under IFRS. 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 decommissioning expenditures.
[3] Cash payments per share are based on payments made in respect of production months within the quarter.
[4] At December 31, 2010, long-term debt includes bank debt and subordinated promissory note.
[5] 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.

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, 2011. During the first quarter of the year, Bonterra continued to focus on its horizontal drilling program targeting the Pembina Cardium, improving its financial performance and providing increased value to its shareholders.

IFRS Transition

For the first quarter of 2011, the Company's Management's Discussion and Analysis (MD&A) and Financial Statements along with the notes thereto, are reported under International Financial Reporting Standards (IFRS). It is mandatory that all Canadian publically accountable enterprises prepare their financial statements in accordance with Canadian Generally Accepted Accounting Principles (Canadian GAAP) revised to incorporate new accounting standards under IFRS. This change in accounting principles significantly affected certain financial information and disclosures from past financial reporting of the Company and may be confusing to Bonterra's shareholders. Reporting under IFRS will result in Canadian standards now being more aligned with European and Australian accounting standards and away from previous Canadian principles and present United States principles. IFRS permits companies to be flexible with their reporting and this may result in making it more difficult to compare Canadian companies with each other, or in some instances, cross border reporting Canadian companies with their U.S. peers.

IFRS has been and continues to be a very costly and time consuming transition for Canadian companies and will likely continue to be so into the future. Management is of the opinion that the adoption of IFRS should have been delayed for Canadian companies and for the respective industries that are affected at least until the United States decided what form of IFRS it would adopt, if any. Regulators and the accounting profession obviously did not agree.

Bonterra will ensure that appropriate disclosures and discussions are provided in the MD&A and the financial statements to assist shareholders, analysts and other parties with their respective evaluations and has provided additional information in the above "Highlights" section to assists readers with their reviews.

Operations

Production in the first quarter of 2011 averaged 6,350 BOE per day, an increase of approximately 27 percent over the comparable quarter of 2010 and four percent over the fourth quarter of 2010. These increases are mainly attributable to the positive results from the Company's horizontal drilling program.

Bonterra's 2011 capital expenditures continue to be focused on its Cardium horizontal drilling program. Capital expenditures for the year are estimated at approximately $50 to $60 million, net of drilling credits. The majority of the 20 to 25 planned gross wells will be located within the Halo area of its Cardium properties with the remainder of the wells to be drilled in the main portion of the Pembina pool thereby converting some booked vertical locations to horizontal locations. Results over the past two years indicate that the economics for horizontal wells are substantially better than for vertical wells.

During the first quarter, Bonterra spent approximately $20.4 million primarily on the drilling of six gross (five net) Pembina Cardium horizontal wells and the completing, equipping and tieing-in of four wells drilled in the fourth quarter of 2010. Only two of the six wells drilled in the first quarter were on production during March and thus had little impact on first quarter production numbers. Currently, five 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 commence at this time as well. The Company makes a concerted effort to complete and place all wells that are drilled on production in a time efficient manner.

Capital expenditures during this quarter account for more than one-third of the 2011 capital budget. This resulted in a small increase in long-term debt and negative working capital. Capital expenditures in the second quarter of 2011 will be substantially lower due to road bans. This will result in a positive impact on long term debt and working capital in that quarter.

To date, the Company is pleased and excited with its development of the Cardium using horizontal multi-stage frac technology. Bonterra is constantly increasing its knowledge and understanding of the Cardium zone 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.

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 2011 production levels between 6,200 and 6,500 BOE per day.

Financial

Financial results during the first quarter substantially improved due to increased production levels and strengthening crude oil prices, partially offset by lower natural gas prices. Revenue and cash flow from operations increased 40 percent and 60 percent, respectively, when compared to the same period in 2010. Average realized crude oil and NGL prices improved approximately 11 percent while natural gas prices decreased approximately 19 percent over the same time frame. As well, quarter over quarter saw improvements of 12 percent in revenue and 42 percent in cash flow from operations due mainly to increased commodity prices and production levels.

Bonterra's netbacks have also shown improvements with a 15 percent increase to $41.75 per BOE in the first quarter of 2011 compared with $36.30 per BOE in the fourth quarter of 2010 and an increase of 21 percent from $34.38 per BOE for the comparable quarter of 2010. Netbacks have been positively impacted by commodity prices. In addition, Bonterra has decreased field operating costs quarter over quarter which has also contributed to these enhanced levels.

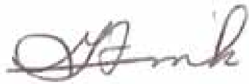
Dividends

As a result of the Company's improved financial results, Bonterra was able to increase the dividend paid to shareholders to $0.72 per share in the first quarter of 2011 compared to $0.68 per share in the fourth quarter of 2010 and $0.57 per share in the first quarter in 2010. Bonterra has subsequently increased the dividend once again to its current level of $0.26 per share beginning with the May 31, 2010 dividend payment.

The dividend payments to shareholders in the first quarter of 2011 resulted in a payout ratio of 54 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 55 to 70 percent of its annual funds flow while retaining the remainder for capital expenditure requirements. Considering the Company's sustainable capital program for 2011, 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 with its sustainable, strategic approach to developing its asset base through the allocation of capital to its high return 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 June 1, 2011 is a review of the operations and current financial position for the three months ended March 31, 2011 for Bonterra Energy Corp. (Bonterra or the Company) and should be read in conjunction with the condensed consolidated financial statements presented under International Financial Reporting Standards (IFRS), including the notes related thereto, and the audited financial statements presented under Canadian generally accepted accounting principles (Canadian GAAP) for the fiscal year ended December 31, 2010, together with the notes related thereto.

A reconciliation of the new and revised standards and interpretations are outlined in Note 21 of the March 31, 2011 condensed consolidated financial statements for the comparative periods.

Transition to IFRS from Canadian GAAP

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (CICA Handbook). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (IFRS) and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in the interim financial statements in accordance with International Accounting Standards (IAS) 34 – Interim Financial Reporting (IAS 34) after applying the requirements of International Financial Reporting Standards 1 – First-time Adoption of International Financial Reporting Standards (IFRS 1). In the Management's Discussion and Analysis (MD&A), the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS. The Company's financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS.

IFRS are premised on a conceptual framework similar to Canadian GAAP, however, significant differences exist in certain matters of recognition, measurement and disclosure. On adoption, the Company utilized certain first-time adoption exemptions available resulting in significant changes to the statement of financial position and statement of comprehensive income. In particular, the Company's opening statement of financial position reflects the revaluation of certain capital assets to their fair values as at January 1, 2010. The revaluation is primarily the result of applying the fair value of assets received versus the carrying cost of assets disposed of on a non-cash asset exchange, net of depletion for our transition to IFRS or as a result of the policies we adopted under IFRS requiring certain assets to be measured at fair value.

Additionally, these changes to the opening statement of financial position required that a corresponding tax asset or liability be established based on the resultant differences between the carried value of these capital assets under IFRS and their associated tax bases. In aggregate, these increases and the application of various policies under IFRS that differ from Canadian GAAP increased shareholders' equity by $61,670,000 as at January 1, 2010. Note 21 of our condensed consolidated financial statements provides detailed reconciliations between Canadian GAAP and IFRS of shareholders' equity as at January 1, March 31 and December 31, 2010 and of net income for the three months ended March 31, 2010 and for the year ended December 31, 2010, respectively. These reconciliations provide explanations of each major difference.

The following discussion highlights the significant new standards that the Company has adopted under IFRS and the effect on the comparative period results of operations and financial position as previously reported under Canadian GAAP as well as the possible effects going forward.

IAS 16 *Property, Plant and Equipment* (IAS 16) requires an entity to record a non-cash transaction at fair value for the consideration or capital assets received and record a gain or loss on disposal for the consideration paid or capital assets transferred to other party. Under Canadian GAAP an entity is required to record a non-cash transaction at book value for the consideration transferred to the other party and therefore no gain or loss on disposal is recorded.

The Company has revalued its non-cash transactions using the fair value of the consideration received for certain oil and gas property, plant and equipment assets exchanged previously in 2007 (Asset Exchange). Revaluing the Asset Exchange increased shareholders' equity by $8,309,000 on an after-tax basis as at January 1, 2010. It also increased Property, Plant and Equipment (PPE) by $11,755,000 after the effects of depletion and depreciation as at January 1, 2010.

IFRS 6 *Exploration for and Evaluation of Mineral Resources* (IFRS 6) allows for a policy decision to be made with regard to costs incurred between the date the Company acquires the legal right to explore a particular area and the date when the technical feasibility and the commercial viability of reserves are demonstrable. Costs incurred during this period may include lease acquisition rights, technical studies and services, seismic costs, geologic and geophysical costs, exploratory drilling and testing and directly attributable costs. Upon adoption of IFRS, the Company reclassified $7,992,000 from Property, Plant and Equipment (PPE) to Exploration and Evaluation (E&E) assets as at January 1, 2010.

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (IAS 37), similar to Canadian GAAP requires the Company to recognize a decommissioning liability for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of oil and gas properties and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for the decommissioning of an asset is recognized as its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding decommissioning liability is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using the unit-of-production method. Following the initial recognition of the decommissioning liability, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the discount rate used, amount or timing of the underlying cash flows needed to settle the liability. Under Canadian GAAP the discount rate used is the credit adjusted risk free rate, which is higher than the risk free rate used under IFRS. Revaluing the decommissioning liabilities under IFRS increased the decommissioning liabilities by $3,492,000, PPE by $1,736,000 and shareholders' equity by $1,314,000 on an after-tax basis as at January 1, 2010.

The adoption of IFRS impacts the Company's assets, liabilities, shareholders' equity and net earnings for the comparative periods. A summary of the significant IFRS changes to the 2010 financial information are as follows:

Summary Net Earnings Reconciliation

		2010			
($ 000s except $ per share)	**Annual**	**Q4**	**Q3**	**Q2**	**Q1**
Net earnings - Canadian GAAP	**49,864**	**14,213**	**12,724**	**10,887**	**12,040**
Other income - Gain on sale of property	73	-	-	-	73
Unwinding of the fair value of decommissioning liabilities	17	(18)	16	232	(213)
Depletion and depreciation	(1,040)	(273)	(250)	(482)	(35)
Other	(1)	-	(3)	5	(3)
Deferred taxes	(8,959)	(2,084)	(2,357)	(254)	(4,264)
Net earnings - IFRS	**39,954**	**11,838**	**10,130**	**10,388**	**7,598**
Basic net earnings per share – Canadian GAAP	**2.65**	**0.75**	**0.68**	**0.58**	**0.64**
Effects of adjustments to net earnings	(0.53)	(0.13)	(0.14)	(0.03)	(0.23)
Basic net earnings per share -IFRS	**2.12**	**0.62**	**0.54**	**0.55**	**0.41**
Diluted net earnings per share - Canadian GAAP	2.58	0.73	0.66	0.56	0.63
Effects of adjustments to net earnings	(0.52)	(0.12)	(0.14)	(0.02)	(0.23)
Diluted net earnings per share - IFRS	**2.06**	**0.61**	**0.52**	**0.54**	**0.40**

Summary Total Assets, Total Liabilities, Shareholders' Equity and Working Capital Deficiency Reconciliation

	2010			
($ 000s)	Q4	Q3	Q2	Q1
Total Assets - Canadian GAAP	**335,144**	**318,493**	**307,934**	**305,440**
Current				
Deferred tax asset	(22,889)	(18,082)	(10,735)	(11,342)
Non-current				
Exploration and evaluation assets and property, plant and equipment	14,795	12,114	12,364	12,623
Deferred tax asset	20,775	16,096	8,688	9,297
Total Assets - IFRS	**347,825**	**328,621**	**318,251**	**316,018**
Total Liabilities - Canadian GAAP	**196,731**	**190,001**	**181,889**	**180,048**
Current				
Deferred credit	(19,586)	(15,320)	(8,996)	(8,370)
Non-current				
Deferred credit	(25,850)	(32,072)	(40,814)	(41,692)
Decommissioning liabilities	6,357	3,385	3,398	3,412
Total Liabilities - IFRS	**157,652**	**145,994**	**135,477**	**133,398**
Shareholders' Equity - Canadian GAAP	**138,413**	**128,492**	**126,045**	**125,392**
Retained earnings	51,760	54,135	56,729	57,228
Shareholders' Equity - IFRS	**190,173**	**182,627**	**182,774**	**182,620**
Total Liabilities and Shareholders' Equity - IFRS	**347,825**	**328,621**	**318,251**	**316,018**
Working Capital (Deficiency) - Canadian GAAP	**14,602**	**17,891**	**2,281**	**13,178**
Current assets	22,889	18,082	10,735	11,342
Current liabilities	(19,586)	(15,320)	(8,996)	(8,370)
Working Capital (Deficiency) - IFRS	**17,905**	**20,653**	**4,020**	**16,150**

Use of Non-IFRS Financial Measures

Throughout this Management's Discussion and Analysis (MD&A) we use the terms "payout ratio" and "cash netback" to analyze operating performance, which are not standardized measures recognized under IFRS and do not have a standardized meaning prescribed by IFRS. These measures are commonly utilized in the oil and gas industry and are considered informative by management, shareholders and analysts. These measures may differ from those made by other companies and accordingly may not be comparable to such measures as reported by other companies.

We calculate payout ratio by dividing cash dividends to shareholder by cash flow from operating activities both of which are measures prescribed by IFRS which appear on our statements of cash flows. We calculate cash netback by dividing various operation and deficit statement items as determined by IFRS 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

	IFRS				
	2011	2010			
Financial ($ 000s except $ per share)	**Q1**	Q4	Q3	Q2	Q1
Revenue – realized oil and gas sales	**38,170**	34,208	28,332	29,191	27,248
Cash flow from operations	**24,034**	16,976	17,556	16,644	15,061
Per share – basic	**1.25**	0.90	0.94	0.89	0.81
Per share – diluted	**1.22**	0.88	0.91	0.87	0.78
Cash dividends per share [1]	**0.72**	0.68	0.66	0.64	0.57
Payout Ratio [1]	**58%**	76%	70%	72%	70%
Net earnings	**13,624**	11,837	10,130	10,388	7,598
Per share – basic	**0.71**	0.62	0.54	0.55	0.41
Per share – diluted	**0.69**	0.61	0.52	0.54	0.40
Capital expenditures and acquisitions, net of disposals	**20,344**	25,318	19,227	10,994	15,141
Total assets	**357,000**	347,825	328,621	318,251	316,018
Working capital deficiency	**39,777**	17,905	20,653	4,020	16,150
Long-term debt	**70,568**	85,386	73,901	78,434	63,097
Shareholders' equity	**192,054**	190,173	182,627	182,774	182,620
Operations					
Oil and NGLs (barrels per day)	**4,597**	4,378	3,890	3,874	3,345
Natural gas (MCF per day)	**10,517**	10,214	10,674	11,157	10,038
Total BOE per day [2]	**6,350**	6,080	5,669	5,733	5,018

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

[1] Cash dividends 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.

Production

	Three months ended		
	March 31, 2011	December 31, 2010	March 31, 2010
Crude oil and NGLs (barrels per day)	**4,597**	4,378	3,345
Natural gas (MCF per day)	**10,517**	10,214	10,038
Average BOE per day	**6,350**	6,080	5,018

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 three months ended March 31, 2011 increased 27 percent to 6,350 BOE per day compared to 5,018 BOE per day for the same period a year ago. The increase is due to the Company's successful 2010 Cardium horizontal oil well drilling program. Production increased over four percent in Q1 2011 compared to Q4 2010 as the Company placed six gross (5.75 net) Pembina Cardium and Willesden Green horizontal wells on production during the middle of the first quarter.

Natural gas volumes in the quarter increased five percent compared to the first quarter of 2010 and three percent compared to the fourth quarter of 2010 as a result of our Cardium horizontal drilling program. Gas production volumes continued to be negatively affected by capacity constraints that started in mid 2010 at one Pembina gas plant that the Company has an ownership in. Approximately 1,110 mcf per day of non-associated gas production net to the Company remained shut-in until mid March when approximately half was placed back on production after a gas redirection project was completed. With the increased activity in the Pembina area, the Company continues to work with producers in the area to limit capacity constraints.

The Company drilled four gross (3.75 net) Pembina Cardium and Willesden Green horizontal wells during the fourth quarter of 2010 and six gross (five net) Pembina Cardium and Willesden Green horizontal wells in the first quarter of 2011. Of these wells, six gross (5.75 net) commenced production prior to March 31, 2011. Three more gross wells (two net), commenced production during April 2011 and the remaining horizontal well will be placed on production after spring breakup.

There were significant operational issues related to commissioning new facilities and putting new wells on production in the first quarter due to extremely cold temperatures, especially in the Willesden Green area that produces at higher gas to oil rates. In Willesden Green a new facility that is temporarily tied into a high pressure third party gas gathering line was commissioned. The high operating pressure and cold weather caused significant gas hydrate formation problems that restricted production through March. In April the majority of the operating issues have been resolved, however, well productivity continues to be restricted by high operating pressures. The Company has commenced construction of a permanent tie-in to a low pressure gathering system that it has an interest in which will alleviate the production restrictions. It is expected that the project will be complete in the second quarter of 2011.

With the new wells on production, the Company's production is in excess of 6,400 BOE per day in April and is expected to decline during spring break-up, but increase again with the commencement of the horizontal drilling program in the third quarter.

Oil and Gas Sales, Net of Royalties

	Three months ended		
	March 31, 2011	December 31, 2010	March 31, 2010
($ 000s)			
Revenue – oil and gas sales	**38,170**	34,208	27,248
Less:			
Crown royalties	**2,353**	2,092	1,806
Freehold, gross overriding royalties and other	**1,011**	793	1,071
Total royalties	**3,364**	2,885	2,877
Oil and gas sales, net of royalties	**34,806**	31,323	24,371
Average Realized Prices ($):			
Crude oil and NGLs (per barrel)	**82.83**	75.91	74.88
Natural gas (per MCF)	**4.12**	3.78	5.11
Royalties – percentage of revenue	**8.8**	8.4	10.5
Royalties $ per BOE	**5.89**	5.16	6.36

Revenue from petroleum and natural gas sales increased $10,922,000, a 40 percent improvement from the corresponding quarter in 2010, due to a 27 percent increase in production and an 11 percent increase in crude oil and NGL prices which was partially offset by a 20 percent reduction in natural gas pricing. Quarter over quarter saw an increase in revenues of $3,962,000 due to increasing commodity prices and production volumes.

The Company's product split on a revenue basis for the first quarter of 2011 is approximately 90 percent weighted towards crude oil and NGLs. This ratio will likely increase as the Company develops its Pembina Cardium and Willesden Green horizontal drilling program.

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 6.2 percent (Q4 2010 – 6.1 percent, Q1 2010 – 6.6 percent). Crown royalties increased from the first and fourth quarter of 2010 due to increased production volumes and commodity prices.

The Company's average non-crown royalty rate totaled 2.6 percent (Q4 2010 – 2.3 percent, Q1 2010 – 3.8 percent). During the fourth quarter the Company reviewed several of its non-crown royalty agreements and discovered some overpayments. The adjustment recorded in Q4 2010 amounted to approximately $160,000 of over payments in previous periods.

ALBERTA GOVERNMENT COMPETITIVENESS REVIEW

On March 11, 2010, the Government of Alberta announced it would modify conventional oil and natural gas royalties effective January 2011 to increase Alberta's competitiveness in the upstream energy sector. The five per cent front-end royalty rate on a certain volume of initial production for conventional oil and natural gas became a permanent feature of the royalty system. The maximum royalty rate for all conventional oil was reduced to 40 percent from 50 percent. New wells that initially had a five percent front-end royalty will increase to regular royalty rates after production exceeds the volume that previously permitted the five percent rate. In accordance with the government amendment, the maximum royalty rate for conventional and unconventional natural gas was reduced at higher prices from 50 to 36 percent. Other royalty incentive programs will remain in effect. Management believes these changes to the royalty system will have a positive effect on cash flow.

Other Income

	Three months ended		
	March 31,	December 31,	March 31,
($ 000s)	**2011**	2010	2010
Gain on sale of property	**4**	-	5,858
Gain on sale of investments	**1,854**	782	-
Interest income	**1**	10	12
Administrative income	**82**	90	112
	1,941	882	5,982

During the first quarter of 2011 the Company disposed of a portion of its investments. Gross proceeds from the sales were $3,404,000 resulting in an accounting gain of $1,854,000. During the fourth quarter of 2010 the Company disposed of a portion of its investments for gross proceeds of $1,198,000 and an accounting gain of $782,000. The market value of the investments held by the Company is in excess of $9,000,000 at March 31, 2011.

In February 2010, the Company disposed of its Southeast Saskatchewan Pinto property for cash proceeds of $5,534,000 resulting in an accounting gain of $5,858,000.

The Company receives administrative income by way of management fees from related parties (see related party transactions).

Production Costs

	Three months ended		
	March 31,	December 31,	March 31,
($ 000s except $ per BOE)	**2011**	2010	2010
Production costs	**8,325**	8,697	6,702
$ per BOE	**14.57**	15.55	14.85

Total production costs for the first three months of 2011 have increased by $1,623,000 over the same period one year ago mainly due to increased production volumes, higher electrical costs, higher than expected facility start-up costs and previous period adjustments. On a per BOE basis, production costs have decreased by approximately two percent.

Production costs for Q1 2011 have decreased from Q4 2010 due mainly to the billing in Q4 2010 of several prior period natural gas processing charge adjustments of approximately $800,000 ($1.43 per BOE) by the operator of a number of gas plants. The Company expects the production costs on a unit-of-production basis to decrease with increased field optimization and increased production volumes.

The Company's production comes primarily from low productivity wells. These wells generally have higher productions 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 Company's horizontal drilling program should lower production costs on a unit-of-production basis in the future as these wells have higher production volumes per well.

General and Administration (G&A) Expense

($ 000s except $ per BOE)	Three months ended March 31, 2011	December 31, 2010	March 31, 2010
Employee compensation expense	**1,260**	1,099	1,131
Office and administration expense	**575**	460	492
	1,835	1,559	1,623
$ per BOE	**3.21**	2.79	3.59

Total general and administrative expenses increased 13 percent to $1,835,000 for the three months ended March 31, 2011 from $1,623,000 in the same period in 2010. On a per BOE basis, general and administrative expenses decreased 11 percent for the three months ended March 31, 2011 to $3.21 per BOE from $3.59 per BOE in the same period in 2010.

The increase in employee compensation expense quarter over quarter was primarily due to annual salary adjustments and an increase in accrued bonuses due to higher net earnings before income taxes. Total employee compensation increased approximately $129,000 in Q1 2011 compared to Q1 2010 and $167,000 in Q1 2011 compared to Q4 2010. The Company has a bonus plan that is based on three percent of earnings before income 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 is profitable.

Office and administration costs consist primarily of professional services such as legal, engineering and accounting, computer services, consulting fees and bank charges. The increase in office and administration related primarily to increased technical consulting fees of approximately $150,000, along with an increase in the provision in the allowance for doubtful accounts of approximately $144,000, offset by a decrease in banking related costs of approximately $175,000. The bank costs primarily related to a reduction of standby charges on the Company's unused portion of its credit facility and an overall decrease in bank fees.

Finance Costs

($ 000s except $ per BOE)	Three months ended March 31, 2011	December 31, 2010	March 31, 2010
Interest on long-term debt	**569**	653	516
Other interest	**298**	192	116
Interest expense	**867**	845	632
$ per BOE	**1.52**	1.51	1.40
Unwinding of the fair value of decommissioning liabilities	**206**	216	213
Total finance costs	**1,073**	1,061	845

Interest on long-term debt increased in Q1 2011 over Q1 2010 primarily due to an increase in the Company's total outstanding debt balance of approximately 12 percent associated with increased capital expenditures.

Other interest relates to amounts paid to related parties (see related party transactions) and subordinated promissory note.

As of March 31, 2011 and December 31, 2010, the Company has a bank facility consisting of $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, 2011 were $70,568,000 (December 31, 2010 - $70,386,000). Amounts borrowed under the credit facility bear interest at a floating rate based on the applicable Canadian prime rate or Banker's Acceptance rate, plus between 1.0 percent and 3.75 percent, depending on the type of borrowing and the Company's consolidated total funded debt to consolidated cash flow. The terms of the syndicated revolving credit facility provided that the loan is revolving to April 28, 2011 and with a maturity date of April 27, 2012 and is subject to annual review. The revolving credit facility had no fixed terms of repayment.

Effective April 28, 2011, the Company renewed its bank facility under similar terms and conditions with the exception of extending the revolving period to April 26, 2012, the maturity date to April 25, 2013, and reducing its interest and bank fees. The credit facility will bear interest at a floating rate based on applicable Canadian prime rate or Banker's Acceptance rate, plus between 0.75 percent and 3.5 percent, depending on the type of borrowing and the Company's consolidated total funded debt to consolidated cash flow.

The amount available for borrowing under the credit facilities is reduced by outstanding letters of credit. Letters of credit totaling $285,000 were issued March 31, 2011 (December 31, 2010 - $285,000). Security for credit facilities consists of various and floating demand debentures totaling $200,000,000 over all of the Company's assets, and general security agreement with first ranking over all personal and real property.
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 related party amounts and subordinated debenture).
- 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 IFRS excluding adjustments for non-cash working capital items.

At March 31, 2011, the Company is in compliance with all covenants.

Share-Based Payments

	Three months ended		
($ 000s)	**March 31, 2011**	December 31, 2010	March 31, 2010
	145	57	142

Share-based payments are 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 $2,385,000 will be recorded for the balance of 2011, $2,582,000 for 2012, $154,000 for 2013 and $16,000 for 2014.

During the first quarter of 2011, the Company issued 623,000 stock options to employees, directors and consultants with an estimated fair value of $5,122,000 ($8.22 per option). The fair value of the options granted has been estimated using the Black-Scholes option pricing model, assuming a weighted risk free interest rate of 1.9 percent, expected weighted average volatility of 32.2 percent, expected weighted average life of 2.0 years and an annual dividend rate based on the dividends paid to the shareholders during the period.

Depletion and Depreciation

	Three months ended		
	March 31,	December 31,	March 31,
($ 000s)	**2011**	2010	2010
	6,479	6,089	4,826

Capital costs for oil and gas properties that result in the addition of reserves are depleted using the unit-of-production basis by field. For production facility and equipment expenditures such as well equipment, the Company uses a 10 percent declining basis for depreciation calculation.

Provision for depletion and depreciation increased for the three month period ended March 31, 2011 over March 31, 2010. 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 Willesden Green and Pembina Cardium horizontal drilling program and increased flush production from the six (5.75 net) horizontal wells that came on production in Q1 2011. The Company incurred capital costs of approximately $8.65 (March 31, 2010 - $7.75) per total proved BOE of reserves based on the December 31, 2010 independent engineering report.

Taxes

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	27,842
Eligible capital expenditures	7	6,729
Share issue costs	20	1,068
Canadian oil and gas property expenditures	10	18,742
Canadian development expenditures	30	116,847
Canadian exploration expenditures	100	11,140
SR&ED expenditures	100	27,764
Income tax losses carried forward [1]	100	222,596
		432,728

[1] Federal income tax losses carried forward expire in the following years; 2024 - $3,347,000, 2025 - $7,532,000, 2026 - $46,671,000, 2027 - $117,189,000, 2028 - $34,726,000, 2029 - $13,131,000.

The Company also has $27,670,000 (December 31, 2010 - $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.

In addition to the above, the Company has $137,919,000 (December 31, 2010 - $139,773,000) 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 its future acquisitions and dispositions of assets and liabilities. A significant change in these assumptions could materially affect the Company's estimate of the future income tax asset.

The Company recorded a deferred tax expense of $5,266,000 for Q1 2011 (Q4 2010 – $2,904,000 and Q1 2010 - $8,617,000). The deferred tax expense decreased in the first quarter of 2011 over the first quarter of

2010 due to the amalgamation of Bonterra Oil & Gas Ltd., Bonterra Energy Income Trust and Bonterra Energy Corp.

Net Earnings

	Three months ended		
($ 000s except $ per share)	**March 31, 2011**	December 31, 2010	March 31, 2010
Net earnings	**13,624**	11,837	7,598
$ per share – basic	**0.71**	0.62	0.41
$ per share – fully diluted	**0.69**	0.61	0.40

Net earnings increased in the first three months of 2011 by $6,026,000 (79 percent) from the corresponding 2010 period. Increased net earnings resulted from higher crude oil prices and increased production volumes and decreased provision for deferred tax expense. This increase was partially offset by higher production costs and increased depletion and depreciation expense. The Company returned in excess of 37 percent of its gross realized revenues in net earnings. The Company's low capital costs combined with the Company's lower production decline rates should allow for continued positive earnings even in a low commodity price environment. The increase in net earnings for Q1 2011 compared to Q4 2010 is also the result of higher commodity pricing and increased production volumes.

Other Comprehensive Income

Other comprehensive income for the three months of 2011 consists of an unrealized gain before tax on investments (including investments in a related party) of $1,654,000 (Q4 2010 - $2,642,000 and Q1 2010 - $3,120,000) relating to an increase in the investment's fair value. The Company also sold a portion of these investments, which are comprised of marketable securities, for a realized gain before tax of $1,854,000 (Q4 2010 - $782,000 and Q1 2010 - $Nil). Realized gains decrease other comprehensive income, as the gains are transferred to net earnings. Other comprehensive income varies from net earnings by unrealized changes in the fair value of Bonterra's holdings of investments including the investment in related party, net of tax.

Cash Flow from Operations

	Three months ended		
($ 000s except $ per share)	**March 31, 2011**	December 31, 2010	March 31, 2010
Cash flow from operations	**24,034**	16,976	15,061
$ per share – basic	**1.25**	0.90	0.81
$ per share – fully diluted	**1.22**	0.88	0.78

First quarter 2011 cash flow from operations increased $8,973,000 or 60 percent compared to Q1 2010 primarily due to increased oil and gas sales and crude oil and NGL prices during the first three months of 2011. The quarter over quarter increase of $7,058,000 or 42 percent was due to increased commodity prices, production volumes and an increase in non-cash working capital.

Cash Netback

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

$ per BOE	**March 31, 2011**	December 31, 2010	March 31, 2010
Production volumes (BOE)	**571,458**	559,400	451,638
Gross production revenue	**$ 66.79**	$ 61.15	$ 60.33
Royalties	**(5.89)**	(5.16)	(6.36)
Field operating costs	**(14.57)**	(15.55)	(14.85)
Field netback	**46.33**	40.44	39.12
General and administrative	**(3.21)**	(2.79)	(3.59)
Interest and other	**(1.37)**	(1.35)	(1.15)
Cash netback	**$ 41.75**	$ 36.30	$ 34.38

Related Party Transactions

The Company holds 689,682 (December 31, 2010 – 689,682) common shares in Geomark Exploration Ltd. (Geomark) which have a fair market value as of March 31, 2011 of $1,048,000 (December 31, 2010 - $814,000). Geomark is a publically traded minerals company on the TSX Venture Exchange under the symbol GME. The Company has common directors and management with Geomark. In addition, Geomark owns 204,633 (December 31, 2010 – 204,633) common shares in the Company.

Effective July 6, 2010, Comaplex Minerals Corp. (Comaplex) (a company with common management and directors) was acquired by Agnico-Eagle Mines Limited (Agnico-Eagle). In exchange for Bonterra's 689,682 common shares in Comaplex, the Company received 689,682 shares in Geomark and 108,693 common shares in Agnico-Eagle (value included in Investments on the balance sheet). The common shares of Agnico-Eagle trade on the Toronto Stock Exchange under the symbol AEM and the common shares of Geomark trade on the TSX Venture Exchange under the symbol GME. The investment in Geomark represents 1.3 percent ownership in the outstanding common shares of Geomark.

Geomark paid a management fee to the Company of $67,500 (March 31, 2010 - $90,000 paid by Comaplex). Geomark also shares office rental costs and reimburses the Company for costs related to employee benefits and office materials. Services provided by the Company include executive services (chief executive officer, president and chief financial officer duties), accounting services, oil and gas administration and office administration. All services performed are charged at estimated fair value. At March 31, 2011, Geomark owed the Company $35,000 (December 31, 2010 - $35,000).

As a result of the acquisition by Agnico-Eagle of Comaplex on July 6, 2010, the $12,000,000 loan previously held by Comaplex was transferred to Geomark and is repayable by the Company under the same terms. As of March 31, 2011, Geomark has loaned the Company $20,000,000 (December 31, 2010 – $20,000,000). The loan is unsecured, bears interest at Canadian chartered bank prime less 5/8th of a percent and has no set repayment terms. The loan cannot be repaid, or demanded to be paid by Geomark, unless the Company has sufficient available borrowing limits under the Company's credit facility. Interest paid on this loan during the first quarter of 2011 was $117,000 (March 31, 2010 - $59,000 paid to Comaplex). This loan results in being a substantial benefit to Bonterra and to Geomark. The interest paid to Geomark by Bonterra is substantially lower than bank interest and for Geomark the interest earned is higher than Geomark would receive by investing in bank instruments such as BAs or GICs.

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 $15,000 (March 31, 2010 - $22,500). Services provided by the Company include executive services (chief executive officer, president and chief financial officer 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, 2011, the Company had an account receivable from Pine Cliff of $1,000 (December 31, 2010 – $1,000).

As of March 31, 2011, the Company's CEO and major shareholder has loaned the Company $12,000,000 (December 31, 2010 - $12,000,000). The loan is unsecured, bears interest at Canadian chartered bank prime less 5/8th 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 2011 was $70,000 (2010 - $57,000). 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 BAs or GICs.

Liquidity and Capital Resources

During the first three months of 2011, the Company incurred capital costs of $20,344,000 (2010 - $20,725,000) net of drilling credits. The costs relate primarily to the drilling, completing, tieing-in and equipping of six (five net) Pembina Cardium and Willesden Green horizontal wells.

The Company currently has plans to spend an estimated $50,000,000 to $60,000,000 on its 2011 Pembina Cardium horizontal well program and non-operated capital programs. Drilling will recommence after spring breakup. Bonterra anticipates funding the 2011 capital program out of cash flow, proceeds from the exercise of employee stock options, sale of investments and if necessary the Company's unused line of credit.

As of March 31, 2011 and December 31, 2010, 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 these facilities at March 31, 2011 were $70,568,000 (December 31, 2010 - $70,386,000). The interest rates on the outstanding debt as of March 31, 2011 were 4.0 percent and 3.4 percent on the Company's Canadian prime rate loan and Banker's Acceptances, respectively. For information related to interest rate levels and material covenants please refer to the discussion under Interest Expense. Going forward, Bonterra remains committed to maintaining financial management, whereby, capital expenditure ranges and dividend payments annually will not result in the bank loan to cash flow ratio exceeding 1.5 to 1.

Shareholders' Equity

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, 2011	19,219,541	135,030
Issued pursuant to Company share option plan	102,800	2,107
Transfer of contributed surplus to share capital		115
Balance, March 31, 2011	19,322,341	137,252

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 a stock option plan for its directors, officers, employees and consultants. Under the plan, the Company may grant options for up to 1,932,234 (December 31, 2010 – 1,921,954) common shares. The exercise price of each option granted will not be lower than 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, 2011 and December 31, 2010, and changes during the three month and twelve month periods ended on those dates is presented below:

	March 31, 2011		December 31, 2010	
	Options	**Weighted-Average Exercise Price**	Options	Weighted-Average Exercise Price
Outstanding at beginning of period	**747,000**	**$ 20.56**	1,330,900	$ 20.36
Options granted	**623,000**	**58.08**	36,000	36.98
Options exercised	**(102,800)**	**20.50**	(599,900)	20.63
Options cancelled	**-**	**-**	(20,000)	34.66
Outstanding at end of period	**1,267,200**	**$ 39.01**	747,000	$ 20.56
Options exercisable at end of period	**158,700**	**$ 20.11**	255,500	$ 20.50

The following table summarizes information about options outstanding at March 31, 2011:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number outstanding at March 31, 2011	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at March 31, 2011	Weighted-average exercise price
$ 14.90	22,000	1.8 years	$ 14.90	11,000	$ 14.90
20.50	616,200	1.6 years	20.50	147,700	20.50
48.00 – 52.00	12,000	2.2 years	50.11	-	-
58.00 – 59.00	617,000	2.8 years	58.14	-	-
$ 14.90 – $ 59.00	1,267,200	2.2 years	$ 39.01	158,700	$ 20.11

Dividend Policy

For the three months ended March 31, 2011, Bonterra declared and paid dividends of $13,872,000 ($0.72 per share) compared to $10,091,000 ($0.57 per share) in the same period in 2010. Bonterra's dividend policy is constantly monitored and is dependent upon production, commodity prices, funds from operations, debt levels and capital expenditures. As a dividend paying corporation, Bonterra is well positioned to provide its shareholders a combination of sustainable growth and meaningful income.

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, 2011 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 in accordance with the Committee of Sponsoring Organizations of the Treadway Commission (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.

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 judgments 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.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at (unaudited) ($ 000s)	Note	March 31, 2011	December 31, 2010 (Note 21)	January 1, 2010 (Note 21)
Assets				
Current				
Accounts receivable	4	**20,041**	17,345	14,713
Crude oil inventory		**471**	487	431
Prepaid expenses		**1,182**	1,631	3,247
Investments		**9,486**	11,471	4,462
Investment in related party	6	**-**	-	4,827
		31,180	30,934	27,680
Restricted cash		**-**	-	812
Investment in related party	6	**1,048**	814	-
Exploration and evaluation assets	7	**4,326**	4,595	7,992
Property, plant and equipment	8	**247,179**	233,026	172,559
Investment tax credit receivable	9	**27,670**	27,670	27,670
Deferred tax asset	9	**45,597**	50,786	67,304
		357,000	347,825	304,017
Liabilities				
Current				
Accounts payable and accrued liabilities	10	**23,957**	16,839	18,868
Due to related parties	11	**32,000**	32,000	23,500
Subordinated promissory note	12	**15,000**	-	-
		70,957	48,839	42,368
Subordinated promissory note	12	**-**	15,000	-
Bank debt	13	**70,568**	70,386	59,823
Decommissioning liabilities	14	**23,421**	23,427	21,282
		164,946	157,652	123,473
Commitments and contingencies	19			
Shareholders' equity				
Share capital	15	**137,252**	135,030	121,955
Contributed surplus	15	**3,165**	3,135	3,350
Accumulated other comprehensive income		**5,579**	5,702	2,020
Retained earnings		**46,058**	46,306	53,219
		192,054	190,173	180,544
		357,000	347,825	304,017

See accompanying notes to these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three months ended March 31 (unaudited) ($ 000s, except $ per share)	Note	**2011**	2010 (Note 21)
Revenue			
Oil and gas sales, net of royalties	16	**34,806**	24,371
Other income	17	**1,941**	5,982
		36,747	30,353
Expenses			
Production costs		**8,325**	6,702
Office and administration		**575**	492
Employee compensation		**1,260**	1,131
Finance costs	5	**1,073**	845
Share-based payments		**145**	142
Depletion and depreciation		**6,479**	4,826
		17,857	14,138
Earnings before income taxes		**18,890**	16,215
Income taxes			
Current		**-**	-
Deferred	9	**5,266**	8,617
		5,266	8,617
Net earnings for the period		**13,624**	7,598
Other comprehensive income			
Unrealized gains on investments		**1,654**	3,120
Deferred taxes on unrealized gains on investments		**(169)**	(421)
Realized gains on investments transferred to net earnings		**(1,854)**	-
Deferred taxes on realized gains on investments transferred to net earnings		**246**	-
Other comprehensive income for the period		**(123)**	2,699
Comprehensive income for the period		**13,501**	10,297
Net earnings per share - Basic	15	**0.71**	0.41
Net earnings per share – Diluted	15	**0.69**	0.40
Comprehensive income per share - Basic	15	**0.70**	0.55
Comprehensive income per share – Diluted	15	**0.69**	0.54

See accompanying notes to these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended March 31 (unaudited) ($ 000s)	**2011**	2010
Operating Activities		
Net earnings before income taxes	**18,890**	16,215
Items not affecting cash		
Share-based payments	**145**	142
Depletion and depreciation	**6,479**	4,826
Unwinding of the fair value of decommissioning liabilities	**206**	213
Gain on sale of property	**(4)**	(5,858)
Gain on sale of investments	**(1,854)**	-
Interest income	**(1)**	(12)
Interest expense	**867**	632
Change in non-cash working capital		
Change in accounts receivable	**(848)**	(1,168)
Change in crude oil inventory	**-**	(75)
Change in prepaid expenses	**449**	183
Change in accounts payable and accrued liabilities	**782**	510
Restricted cash	**-**	200
Decommissioning expenditures	**(210)**	(118)
Interest paid	**(867)**	(629)
Cash provided by Operating Activities	**24,034**	15,061
Financing Activities		
Increase in bank debt	**182**	3,274
Stock option proceeds	**2,107**	1,728
Dividends	**(13,872)**	(10,091)
Cash used in Financing Activities	**(11,583)**	(5,089)
Investing Activities		
Interest received	**1**	12
Exploration and evaluation expenditures	**(149)**	-
Property, plant and equipment expenditures	**(20,203)**	(20,675)
Proceeds on sale of property	**8**	5,534
Proceeds on sale of investments	**3,404**	-
Change in non-cash working capital		
Change in accounts payable and accrued liabilities	**6,336**	6,488
Change in accounts receivable	**(1,848)**	(1,331)
Cash used in Investing Activities	**(12,451)**	(9,972)
Net cash Inflow	**-**	-
Cash, beginning of period	**-**	-
Cash, end of period	**-**	-
Non-cash financing transactions		
Reclassification of contributed surplus to share capital upon exercise of options	**115**	54

See accompanying notes to these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the periods ended (unaudited)
($000s, except for number of shares outstanding)

	Number of shares outstanding (Note 15)	Share Capital (Note 15)	Contributed Surplus	Accumulated other comprehensive income	Retained Earnings	Total Shareholders' Equity
January 1, 2010	18,619,641	121,955	3,350	2,020	53,219	180,544
Share-based payments			142			142
Exercise of options	84,300	1,728				1,728
Transfer to share capital on exercise of options		54	(54)			-
Unrealized gains on available-for-sale investments (net of tax)				2,699		2,699
Net earnings for the three months					7,598	7,598
Dividends					(10,091)	(10,091)
March 31, 2010	18,703,941	123,737	3,438	4,719	50,726	182,620
Share-based payments			341			341
Exercise of options	515,600	10,649				10,649
Transfer to share capital on exercise of options		644	(644)			-
Unrealized gains on available-for-sale investments (net of tax)				4,711		4,711
Realized gains on available-for-sale investments transferred to net earnings (net of tax)				(3,728)		(3,728)
Net earnings for the nine months					32,356	32,356
Dividends					(36,776)	(36,776)
December 31, 2010	19,219,541	135,030	3,135	5,702	46,306	190,173
Share-based payments			145			145
Exercise of options	102,800	2,107				2,107
Transfer to share capital on exercise of options		115	(115)			-
Unrealized gains on available-for-sale investments (net of tax)				1,485		1,485
Realized gains on available-for-sale investments transferred to net earnings (net of tax)				(1,608)		(1,608)
Net earnings for the three months					13,624	13,624
Dividends					(13,872)	(13,872)
March 31, 2011	19,332,341	137,252	3,165	5,579	46,058	192,054

See accompanying notes to these condensed consolidated financial statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at and for the periods ended March 31, 2011, 2010 and December 31, 2010 and as at January 1, 2010 (unaudited)

1. NATURE OF BUSINESS AND SEGMENT INFORMATION

Bonterra Energy Corp. (Bonterra or the Company) is a widely held public company listed on the Toronto Stock Exchange and incorporated under the Business Corporations Act (Alberta). The address of the Company's executive office is Suite 901, 1015 4th Street SW, Calgary, Alberta, Canada.

Bonterra operates in one industry and has only one reportable segment being the development and production of oil and natural gas in the Western Canadian Sedimentary Basin.

2. BASIS OF PREPARATION

a) Statement of Compliance

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (CICA Handbook). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (IFRS) and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these interim financial statements in accordance with International Accounting Standards 34 – Interim Financial Reporting (IAS 34) after applying the requirements of with International Financial Reporting Standards 1 – First-time Adoption of International Financial Reporting Standards (IFRS 1). In the financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

The March 31, 2011 interim financial statements are the Company's first financial statements prepared under IFRS using the policies expected to be used at December 31, 2011, subject to changes in IFRS, having an adoption date of January 1, 2011 and a transition date of January 1, 2010. Consequently the comparative figures for 2010 and the Company's statement of financial position as at January 1, 2010 have been restated from accounting principles generally accepted under Canadian GAAP to comply with IFRS.

The reconciliations to IFRS from the previously published Canadian GAAP consolidated financial statements are summarized in Note 21. In addition, IFRS 1 requires certain exemptions and allows certain exemptions from retrospective application of IFRS in the opening statement of financial position. Where these have been applied they are explained in Note 21.

b) Basis of Measurement

These condensed consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments and share-based payment transactions which are measured at fair value.

c) Use of Judgments and Estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the statement of financial position as well as the reported amounts of revenues, expenses and cash flows during the periods presented. Such estimates relate primarily to unsettled transactions and events as of the date of the financial statements. Actual results could differ materially from estimated amounts.

Amounts recorded for depletion and depreciation and amounts used for impairment calculations are based on estimates of crude oil and natural gas reserves and future costs required to develop those reserves. Share-based payments are based upon expected volatility and option life estimates. Provisions for decommissioning liabilities are based on estimates of abandonment costs, timing of abandonment, inflation and interest rates. The provision for income taxes is based on judgments in applying income tax law and estimates on the timing, likelihood and reversal of temporary differences between the accounting and tax basis of assets and liabilities. These estimates are subject to measurement uncertainty and changes in these estimates could materially impact the financial statements of future periods. Further details regarding judgments are discussed in Note 3.

d) Presentation Currency

The Company's functional and reporting currency is the Canadian dollar.

Monetary assets and liabilities are translated into Canadian dollars at the rates prevailing on the reporting date. Non-monetary assets and liabilities are translated into Canadian dollars at the rates prevailing on the transaction dates. Exchange gains and losses are recorded as income or expense in the period in which they occur.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Revenue Recognition

Revenues from the sale of petroleum and natural gas are recorded when the significant risks and rewards of ownership have been transferred to the customer. This generally occurs when the product is physically transferred into a third-party pipeline or when the delivery truck arrives at a customer's receiving location. Items such as royalties from crown, freehold, gross overriding (GORR) and Saskatchewan surcharge are netted against revenue. These items are netted to reflect the deduction for other parties' proportionate share of the revenue.

Administration fee income is recorded when management services and office administration are provided (see related parties disclosure Note 11 and Note 17).

b) Jointly Controlled Assets

Significant portions of the Company's oil and gas assets are owned and operated jointly with other parties and accordingly the financial statements reflect only the Company's proportionate share of assets, liabilities, revenues, expenses and cash flows from these activities.

c) Inventories

Inventories consist of crude oil. Crude oil stored in the Company's tanks is valued on a first in first out basis at the lower of cost or net realizable value. Inventory cost for crude oil is determined based on combined average per barrel operating costs, depletion and depreciation for the period and net realizable value is determined based on estimated sales price less transportation costs.

d) Investments and Investment in Related Party

Investments and investments in related party consist of equity securities classified on initial recognition as available-for-sale and are carried at fair value, less any impairment. Fair value is determined by multiplying the period end trading price of the investments by the number of common shares held as at period end. Unrealized holding gains and losses are recognized in other comprehensive income. Net gains and losses arising on disposal are recognized in net earnings.

e) Exploration and Evaluation Assets

General exploration or evaluation (E&E) expenditures incurred prior to acquiring the legal right to explore are charged to expense as incurred.

E&E expenditures represent undeveloped land costs and license and exploration well costs.

Undeveloped land costs, licenses and exploration well costs are initially capitalized and, if subsequently determined to have not found sufficient reserves to justify commercial production, are charged to expense. E&E assets continue to be capitalized as long as sufficient progress is being made to assess the reserves and economic viability of the well and/or related project. Once technical feasibility and commercial viability has been established, E&E assets are transferred to property, plant and equipment (PPE). E&E assets are assessed for impairment either annually, upon transfer to PPE assets or whenever indications of impairment exists to ensure they are not carried above their recoverable amounts.

f) Property, Plant and Equipment

PPE assets include transferred-in E&E costs, development mining and other subsurface expenditures. PPE assets are carried at cost less depletion and depreciation of all development expenditures and include all other expenditures associated with PPE assets.

When commercial production in an area has commenced, PPE properties, excluding surface costs are depleted using the unit-of-production method over their total proved reserve life. Future development costs are included in costs subject to depletion. Proved reserves and estimated future development costs are determined annually by qualified independent reserve engineers. Changes in factors such as estimates of proved reserves that affect unit-of-production calculations are accounted for on a prospective basis. Surface costs such as production facilities and furniture, fixtures and other equipment are depreciated over their estimated useful lives.

Oil and Gas Properties

The initial cost of an asset is comprised of its purchase price or construction cost, including expenditures such as drilling costs, the present value of the initial and changes in the estimate of any decommissioning obligation associated with the asset and finance charges on qualifying assets, that are directly attributable to bringing the asset into operation and to its present location.

Production Facilities

Production facilities are comprised of costs related to petroleum and natural gas plant and production equipment.

Depreciation

Depreciation is recognized in the statement of comprehensive income. Production facilities, furniture, fixtures and other equipment are depreciated over the individual assets' estimated economic lives. These assets are depreciated on a declining balance method as follows:

Production facilities	10 percent per year
Furniture, fixtures and other equipment	10 percent to 20 percent per year

g) Impairment of Assets

Impairment of Financial Assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

All impairment losses are recognized in net earnings. An impairment loss is reversed if there is an indicator that the impairment reversal can be related objectively to an event occurring after the impairment loss was recognized. Any subsequent recovery of an impairment loss in respect of an investment in an equity instrument classified as available-for-sale is reversed through other comprehensive income instead of net earnings. For financial assets measured at amortized cost, the reversal is recognized in net earnings.

Impairment of Non-Financial Assets

The carrying amounts of the Company's non-financial assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If such indication exists, then the assets' carrying amounts are assessed for impairment.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash flows from continuing use that are largely independent of the cash flows of other assets or groups of assets (the cash-generating unit or CGU). The recoverable amount of an asset or a CGU is the greater of its value-in-use (VIU) and its fair value less costs to sell (FVLCS).

In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining FVLCS, recent market transactions are used as indicators of fair value. These calculations are corroborated by valuation multiples or other available fair value indicators.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive income. Impairment losses recognized in respect of a CGU is allocated first to reduce the carrying value of any goodwill allocated to the CGU and then to reduce the carrying value of the other assets of the CGU on a pro-rata basis.

An impairment loss in respect of goodwill cannot be reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. If the amount of the impairment loss decreases in a subsequent period and the decrease can be objectively related to an event occurring after the impairment was recognized, the impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

h) Decommissioning Liabilities

The fair value of the statutory, contractual, constructive or legal liabilities associated with the retirement and reclamation of oil and gas properties is recorded when incurred, with a corresponding increase to the carrying amount of the related PPE. The amount recognized is the estimated cost of decommissioning, discounted to its present value using the Company's risk free rate. Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. The unwinding of the discount on the decommissioning provision is charged to net earnings as a finance cost.

The Company recognizes a decommissioning liability in the period in which it is incurred when a reasonable estimate of the fair value can be made. On a periodic basis, management will review these estimates and changes, if there are any, they will be applied prospectively. The fair value of the estimated provision is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a unit-of-production basis over the life of the reserves. The liability amount is increased each reporting period due to the passage of time and this amount is charged to earnings in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost would also result in an increase or decrease to the provision. Actual costs incurred upon settlement of the obligations are charged against the provision to the extent of the liability recorded and the remaining balance of the actual costs is recorded in the consolidated statement of comprehensive income.

i) Income Taxes

Tax expense comprises current and deferred taxes. Tax is recognized in the statement of comprehensive income or directly in equity.

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that are substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they are unlikely reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilized. Deferred tax assets are reviewed at each balance date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

j) Share-Based Payments

The Company accounts for share-based payments using the fair-value method of accounting for stock options granted to directors, officers, employees and other service providers using the Black-Scholes option pricing model. Share-based payments are recognized through the statement of comprehensive income over the vesting period with a corresponding amount reflected in contributed surplus in equity. For awards

issued in tranches that vest at different times, the fair value of each tranche is recognized over its respective vesting period.

At the grant date and at the end of each reporting period, the Company assesses and re-assesses for subsequent periods its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions in the statement of comprehensive income. Upon exercise of share-based options, the proceeds received net of any transaction costs and the fair value of the exercised share-based options is credited to share capital.

k) Financial Instruments

Financial instruments are measured at fair value on initial recognition of the instrument and are classified into one of the following four categories: fair-value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and financial liabilities at amortized cost.

Subsequent measurement of financial instruments is based on their initial classification. Fair-value through profit or loss financial instruments are measured at fair value and changes in fair value are recognized in the statement of comprehensive income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. The remaining categories of financial instruments are recognized at amortized cost using the effective interest rate method.

Cash and restricted cash are classified as fair-value through profit and loss and are measured at fair value which equals the carrying value and any gains or losses are recognized in net earnings in the period they occur. Accounts receivable are classified as loans and receivables which are measured at amortized cost. Investments are classified as available-for-sale which is measured at fair value and any gains or losses are recognized in other comprehensive income in the period they occur. Accounts payable and accrued liabilities, bank debt, subordinated promissory note and amounts due to related parties are classified as financial liabilities at amortized cost.

Bank debt, subordinated promissory note and due to related parties are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

l) Risk Management Contracts

The Company is exposed to market risks resulting from fluctuations in commodity prices, foreign currency exchange rates and interest rates in the normal course of its business. The Company may use a variety of instruments to manage these exposures. For transactions where hedge accounting is not applied, the Company accounts for such instruments using the fair value method by initially recording an asset or liability, and recognizing changes in the fair value of the instrument in earnings as unrealized gains or losses on risk management contracts. Fair values of financial instrument are based on third party quotes or valuations provided by independent third parties. Any realized gains or losses on risk management contracts are recognized in net earnings in the period they occur.

The Company may elect to use hedge accounting when there is a high degree of correlation between the price movements in the financial instruments and the items designated as being hedged and the Company has documented the relationship between the instrument and the hedged item as well as its risk management objective and strategy for undertaking hedge transactions. During the periods ended March 31, 2011, December 31, 2010, and March 31, 2010, the Company did not designate any of its financial instruments as hedges. There are no risk management contracts outstanding as at March 31, 2011, December 31, 2010, March 31, 2010 and January 1, 2010.

m) Net earnings and comprehensive income per share

Per share amounts are calculated by dividing the net earnings or comprehensive income attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the reporting period.

Diluted per share amounts are calculated similar to basic per share amounts except that the weighted average common shares outstanding are increased to include additional common shares from the assumed exercise of dilutive share options. The number of additional outstanding common shares is calculated by assuming that the outstanding in-the-money share options were exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting period.

4. ACCOUNTS RECEIVABLE

Accounts receivable are non-interest-bearing financial assets and are generally on monthly terms. Impairment allowances are recognized based on the Company's inability to collect impaired receivables for more than 12 months and there is no clear evidence that particular receipts are reasonably collectable. The following table shows the movement in the provision for impairment of accounts receivable:

($ 000s)	**March 31, 2011**	December 31, 2010
Balance at the January 1	**100**	160
Provision for the period	**144**	59
Amounts written off or reversed	**-**	(119)
Balance at the end of the period	**244**	100

5. FINANCE COSTS

A breakdown of finance costs for the current and previous year is:

($ 000s)	**March 31, 2011**	March 31, 2010
Interest expense on bank debt	**569**	516
Interest expense on subordinated promissory note	**111**	-
Interest expense on amounts owing to related parties	**187**	116
Unwinding of the fair value of decommissioning liabilities	**206**	213
	1,073	845

6. INVESTMENT IN RELATED PARTY

The investment consists of 689,682 (December 31, 2010 – 689,682) common shares in Geomark Exploration Ltd. (Geomark), a company with common directors and management with the Company. The investment is recorded at fair market value.

Effective July 6, 2010, Comaplex Minerals Corp. (Comaplex) (a company with common management and directors) was acquired by Agnico-Eagle Mines Limited (Agnico-Eagle). In exchange for Bonterra's 689,682 common shares in Comaplex, the Company received 689,682 shares in Geomark and 108,693 common shares in Agnico-Eagle (value included in Investments on the balance sheet). The common shares of Agnico-Eagle trade on the Toronto Stock Exchange under the symbol AEM and the common shares of Geomark

trade on the TSX Venture Exchange under the symbol GME. The investment in Geomark represents 1.3 percent ownership in the outstanding common shares of Geomark.

7. EXPLORATION AND EVALUATION ASSETS

($ 000s)	**E&E assets**
Cost and net book value	
Balance at January 1, 2010	7,992
Additions	-
Transfer to property, plant and equipment	(3,397)
Balance at December 31, 2010	**4,595**
Additions	149
Transfer to property, plant and equipment	(418)
Balance at March 31, 2011	**4,326**

8. PROPERTY, PLANT AND EQUIPMENT

Cost ($ 000s)	**Oil and gas properties**	**Production facilities**	**Furniture, fixtures & other equipment**	**Total property, plant & equipment**
Cost				
Balance at January 1, 2010	211,020	52,552	1,461	265,033
Additions	69,449	10,386	13	79,848
Transfers from exploration and evaluation assets	3,397	-	-	3,397
Disposals	(382)	(210)	-	(592)
Balance at December 31, 2010	**283,484**	**62,728**	**1,474**	**347,686**
Additions	16,242	3,912	49	20,203
Transfers from exploration and evaluation assets	418	-	-	418
Disposals	(165)	(44)	(41)	(250)
Balance at March 31, 2011	**299,979**	**66,596**	**1,482**	**368,057**

Accumulated Depletion and Depreciation ($ 000s)	**Oil and gas properties**	**Production facilities**	**Furniture, fixtures & other equipment**	**Total property, plant & equipment**
Balance at January 1, 2010	(70,030)	(21,428)	(1,016)	(92,474)
Depletion and depreciation for the year	(18,428)	(3,950)	(82)	(22,460)
Disposals	161	113	-	274
Balance at December 31, 2010	**(88,297)**	**(25,265)**	**(1,098)**	**(114,660)**
Depreciation for the period	(5,442)	(1,018)	(19)	(6,479)
Disposals	198	25	38	261
Balance at March 31, 2011	**(93,541)**	**(26,258)**	**(1,079)**	**(120,878)**

Net book values as at: **($ 000s)**				
January 1, 2010	140,990	31,124	445	172,559
December 31, 2010	195,187	37,463	376	233,026
March 31, 2011	**206,438**	**40,338**	**403**	**247,179**

Impairment

Management has determined four cash generating units for the Company, which are comprised of one core cash-generating unit (CGU) for the Pembina Cardium and Willesden Green assets in Alberta, Canada and three secondary CGUs which are comprised of:

- Remainder of Alberta, Canada
- Saskatchewan, Canada
- British Columbia, Canada.

These CGUs are the Company's producing fields. As part of its annual impairment analysis, the Company assessed its PPE assets, production facilities, furniture and other equipment by CGU for possible impairment.

The assessment for impairment has been determined based on the value-in-use (VIU) method. VIU was determined on the basis of the discounted expected future cash flows based on the Company's plans to continue to produce total proved reserves.

At December 31, 2010, a Canadian-based, independent reserves evaluator's report resulted in no reduction in total proved reserve estimates. Expected future cash flows from the sale of these volumes are calculated based on the Company's best estimate of future oil and gas prices. Prices for oil and gas used for future cash flow projections are based on quality and Edmonton PAR for oil and AECO for natural gas forward prices. Management have used the past experience to estimate the required capital and operating expenditures to extract oil and gas, and factored inflation at 1.5 percent.

Projected estimates of cash flows from the CGUs have been determined based on the economic life of the reserves. For the CGUs, these projections are based on the expected life ending December 2060. The impairment testing undertaken concluded that the value in use is greater than the carrying values of the CGUs and no impairment provisions have been recorded for the three months ended March 31, 2011 and 2010 or for the year ended December 31, 2010.

9. INCOME TAXES

The Company has recorded a deferred tax asset related to:

($ 000s)	**March 31, 2011**	December 31, 2010	January 1, 2010
Deferred tax asset (liability) related to:			
Investments	**(789)**	(832)	(824)
Exploration and evaluation assets and property, plant and equipment	**(17,203)**	(16,053)	(9,583)
Decommissioning liabilities	**5,863**	5,866	5,352
Share issue costs	**283**	367	802
Corporate tax losses and SR&ED claims	**56,654**	60,606	71,557
Corporate capital tax loss	**17,307**	17,705	17,883
Valuation adjustment	**(16,518)**	(16,873)	(17,883)
Deferred tax asset	**45,597**	50,786	67,304

Income tax expense varies from the amounts that would be computed by applying Canadian federal and provincial income tax rates as follows:

($ 000s)	**March 31, 2011**	March 31, 2010
Earnings before taxes	**18,890**	16,215
Combined federal and provincial income tax rates	**26.53%**	28.06%
Income tax provision calculated using statutory tax rates	**5,012**	4,550
Increase (decrease) in taxes resulting from:		
Share-based payments	**38**	40
Non-taxable portion of capital gains	**(246)**	(134)
Change in valuation allowance	**(355)**	(393)
Change in effective tax rate	**828**	4,642
Others	**(11)**	(88)
Income tax expense	**5,266**	8,617

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	27,842
Eligible capital expenditures	7	6,729
Share issue costs	20	1,068
Canadian oil and gas property expenditures	10	18,742
Canadian development expenditures	30	116,847
Canadian exploration expenditures	100	11,140
SR&ED expenditures	100	27,764
Income tax losses carried forward [1]	100	222,596
		432,728

[1] Federal income tax losses carried forward expire in the following years; 2024 - $3,347,000, 2025 - $7,532,000, 2026 - $46,671,000, 2027 - $117,189,000, 2028 - $34,726,000, 2029 - $13,131,000.

The Company has $27,670,000 (December 31, 2010 - $27,670,000) remaining of investment tax credits that expire in the following years;

Year	**Amount ($ 000s)**
2019	3,469
2020	3,059
2021	4,667
2022	3,909
2023	3,155
2024	1,995
2025	2,257
2026	2,405
2027	2,009
2028	745
	27,670

The Company also has $137,919,000 (December 31, 2010 - $139,773,000) 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.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Total accounts payable and accrued liabilities comprises the following categories:

($ 000s)	**March 31, 2011**	December 31, 2010	January 1, 2010
Accounts payable	**19,301**	13,120	15,657
Accrued liabilities	**4,656**	3,719	3,211
	23,957	16,839	18,868

11. RELATED PARTIES DISCLOSURE

As of March 31, 2011, the Company's CEO and major shareholder has loaned the Company $12,000,000 (December 31, 2010 - $12,000,000, January 1, 2010 - $11,500,000). The loan is unsecured, bears interest at Canadian chartered bank prime less 5/8 of a percent and has no set repayment terms but is payable on demand. Interest paid on this loan during the first quarter of 2011 was $70,000 (March 31, 2010 - $57,000).

As a result of the acquisition by Agnico-Eagle of Comaplex on July 6, 2010, the $12,000,000 loan previously held by Comaplex was transferred to Geomark and is repayable by the Company under the same terms. As of March 31, 2011, Geomark has loaned the Company $20,000,000 (December 31, 2010 – $20,000,000, Comaplex January 1, 2010 - $12,000,000). The loan is unsecured, bears interest at Canadian chartered bank prime less one 5/8 of a percent and has no set repayment terms but is payable on demand. Interest paid on this loan during the first quarter of 2011 was $117,000 (March 31, 2010 - $59,000 paid to Comaplex).

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. As at March 31, 2011, the Company had sufficient room to repay all balances.

The Company received a management fee from Geomark of $67,500 (2010 - $90,000 received from Comaplex) for management services and office administration. This fee has been included in other income. As at March 31, 2011, the Company had an account receivable from Geomark of $36,000 (December 31, 2010 - $35,000, Comaplex January 1, 2010 - $105,000).

The Company received a management fee from Pine Cliff Energy Ltd. (Pine Cliff) of $15,000 (2010 - $22,500) for management services and office administration. This fee has been included in other income. As at March 31, 2011 the Company had an account receivable from Pine Cliff of $1,000 (December 31, 2010 - $1,000, January 1, 2010 - $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.

Compensation for key management personnel

($ 000s)	**March 31, 2011**	March 31, 2010
Compensation	**291**	155
Share-based payments	**80**	5
Total compensation	**371**	160

Key management personnel are those persons, including all directors, having authority and responsibility for planning, directing and controlling the activities of the Company.

12. SUBORDINATED PROMISSORY NOTE

On October 4, 2010 the Company borrowed $15,000,000 from a private investor. In exchange, Bonterra has issued a Subordinated Promissory Note for $15,000,000. The terms of the Subordinated Promissory Note are that it bears interest at three percent, is not callable by the investor prior to January 4, 2012 at which time it will be a demand note until its maturity of April 4, 2012, and can be repaid at the option of the Company at any time. Security consists of a floating demand debenture totaling $15,000,000 over all of the Company's assets and is subordinated to any and all claims in favor of the syndicate of senior lenders providing credit facilities to the Company. Interest paid on the subordinated promissory note during the first quarter of 2011 was $111,000 (March 31, 2010 - $Nil).

The Company's bank agreement requires that the above loan can only be repaid should the Company have sufficient available borrowing limits under the Company's credit facility. As of March 31, 2011 the Company has sufficient room to repay the subordinated promissory note.

13. BANK DEBT

As of March 31, 2011 and December 31, 2010, the Company has a bank facility consisting of $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, 2011 were $70,568,000 (December 31, 2010 - $70,386,000). Amounts borrowed under the credit facility bear interest at a floating rate based on the applicable Canadian prime rate or Banker's Acceptance rate, plus between 1.0 percent and 3.75 percent, depending on the type of borrowing and the Company's consolidated total funded debt to consolidated cash flow. The terms of the syndicated revolving credit facility provided that the loan is revolving to April 28, 2011 and with a maturity date of April 27, 2012 and is subject to annual review. The revolving credit facility had no fixed terms of repayment.

Effective April 28, 2011, the Company renewed its bank facility under similar terms and conditions with the exception of extending the revolving period to April 26, 2012, the maturity date to April 25, 2013, and reducing its interest and bank fees. The credit facility will bear interest at a floating rate based on applicable Canadian prime rate or Banker's Acceptance rate, plus between 0.75 percent and 3.5 percent, depending on the type of borrowing and the Company's consolidated total funded debt to consolidated cash flow.

The amount available for borrowing under the credit facilities is reduced by outstanding letters of credit. Letters of credit totaling $285,000 were issued March 31, 2011 (December 31, 2010 - $285,000). Security for credit facilities consists of various and floating demand debentures totaling $200,000,000 over all of the Company's assets, and general security agreement with first ranking over all personal and real property.
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 related party amounts and subordinated promissory note).
- 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 IFRS excluding adjustments for non-cash working capital items.

At March 31, 2011, the Company is in compliance with all covenants.

14. DECOMMISSIONING LIABILITIES

At March 31, 2011, the estimated total undiscounted amount required to settle the decommissioning liabilities was $62,369,000 (December 31, 2010 - $62,579,000, January 1, 2010 - $64,482,000). The provision has been calculated assuming a 1.5 percent inflation rate (December 31, 2010 – 1.5 percent

inflation rate, January 1, 2010 – 2.0 percent inflation rate). These obligations will be settled based on the useful lives of the underlying assets, which extend up to 50 years into the future. This amount has been discounted using a risk-free interest rate of 3.5 percent (December 31, 2010 and January 1, 2010 – 4.1percent).

Changes to decommissioning liabilities were as follows:

($ 000s)	**March 31, 2011**	December 31, 2010
Decommissioning liabilities, January 1	**23,427**	21,282
Adjustment to decommissioning liabilities	**(2)**	2,736
Adjustment related to asset disposals	**-**	(443)
Liabilities settled during the period	**(210)**	(1,006)
Unwinding of the fair value of decommisioning liabilities	**206**	858
Decommissioning liabilities, end of period	**23,421**	23,427

15. SHAREHOLDERS' EQUITY

Authorized

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

	March 31, 2011		December 31, 2010	
Issued and fully paid – Common shares	**Number**	**Amount ($ 000s)**	Number	Amount ($ 000s)
Balance, January 1	**19,219,541**	**135,030**	18,619,641	121,955
Issued pursuant to Company share option plan	**102,800**	**2,107**	599,900	12,377
Transfer of contributed surplus to share capital		**115**		698
Balance, end of period	**19,322,341**	**137,252**	19,219,541	135,030

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 weighted average common shares used to calculate basic and diluted net earnings per share for the three month periods ended March 31 is as follows:

	2011	2010
Basic shares outstanding	**19,266,215**	18,682,248
Dilutive effect of share options [1]	**412,483**	539,148
Diluted shares outstanding	**19,678,698**	19,221,396

[1] The Company did not include 617,000 share options (March 31, 2010 – Nil) in the dilutive effect of share options calculation, as these share options were anti-dilutive.

The Company provides an option plan for its directors, officers, employees and consultants. Under the plan, the Company may grant options for up to 1,932,234 (December 31, 2010 – 1,921,954) common shares. The

exercise price of each option granted cannot be lower than 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, 2011 and December 31, 2010, and changes during the three month and twelve month periods ended on those dates is presented below:

	Number of options	**Weighted average exercise price**
At January 1, 2010	1,330,900	$ 20.36
Options granted	36,000	36.98
Options exercised	(599,900)	20.63
Options cancelled	(20,000)	34.66
At December 31, 2010	747,000	$ 20.56
Options granted	623,000	58.08
Options exercised	(102,800)	20.50
At March 31, 2011	1,267,200	$ 39.01

The following table summarizes information about options outstanding at March 31, 2011:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number outstanding at March 31, 2011	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at March 31, 2011	Weighted-average exercise price
$ 14.90	22,000	1.8 years	$ 14.90	11,000	$ 14.90
20.50	616,200	1.6 years	20.50	147,700	20.50
48.00 – 52.00	12,000	2.2 years	50.11	-	-
58.00 – 59.00	617,000	2.8 years	58.14	-	-
$ 14.90 – $ 59.00	1,267,200	2.2 years	$ 39.01	158,700	$ 20.11

The Company records compensation expense over the vesting period based on the fair value of options granted to employees, directors and consultants. In 2011, the Company granted 623,000 stock options with an estimated fair value of $5,122,000 ($8.22 per option) using the Black-Scholes option pricing model with the following key assumptions:

	March 31, 2011	December 31, 2010
Weighted-average risk free interest rate (%)[1]	**1.86**	1.87
Expected life (years)	**2.04**	2.80
Weighted-average volatility (%) [2]	**32.23**	33.10
Forfeiture rate (%)	**0.00**	0.00
Dividend yield 2011 and 2010	Based on the expected dividend yield over the expected life of the options	

(1) Risk-free interest rate is based on the weighted average Government of Canada benchmark bond yields for two, three and five year terms to match corresponding vesting periods.

(2) The expected volatility is measured as the standard deviation of expected share price returns based on statistical analysis of historical weekly share prices for a representative period.

16. OIL AND GAS SALES, NET OF ROYALTIES

($ 000s)	**March 31, 2011**	March 31, 2010
Oil and gas sales	**38,170**	27,248
Less:		
Crown royalties	**(2,353)**	(1,806)
Freehold, gross overriding royalties and other	**(1,011)**	(1,071)
Oil and gas sales, net of royalties	**34,806**	24,371

17. OTHER INCOME

($ 000s)	**March 31, 2011**	March 31, 2010
Interest income	**1**	12
Administrative income	**82**	112
Gain on sale of property	**4**	5,858
Gain on sale of investments	**1,854**	-
Other income	**1,941**	5,982

18. FINANCIAL AND CAPITAL RISK MANAGEMENT

Financial Risk Factors

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

- Accounts receivable
- Accounts payable and accrued liabilities
- Common share investments
- Due to related parties
- Bank debt
- Subordinated promissory note

The Company's activities result in exposure to a number of financial risks including market risk (commodity price risk, interest rate risk, and 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 is managed by senior management under the direction of the Board of Directors.

The Company may enter into various risk management contracts 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 a capital structure that provides a low 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, 2011			As at December 31, 2010		
($ 000s)	**Carrying Value**	**Fair Value**	**Face Value**	Carrying Value	Fair Value	Face Value
Financial assets						
Accounts receivable	**20,041**	**20,041**	**20,285**	17,345	17,345	17,445
Investments	**9,486**	**9,486**	**N/A**	11,471	11,471	N/A
Investments in related party	**1,048**	**1,048**	**N/A**	814	814	N/A
Financial liabilities						
Accounts payable and accrued Liabilities	**23,957**	**23,957**	**23,957**	16,839	16,839	16,839
Due to related parties	**32,000**	**32,000**	**32,000**	32,000	32,000	32,000
Subordinated promissory note	**15,000**	**15,000**	**15,000**	15,000	15,000	15,000
Bank debt	**70,568**	**70,568**	**70,568**	70,386	70,386	70,386

	As at January 1, 2010		
($ 000s)	Carrying Value	Fair Value	Face Value
Financial assets			
Accounts receivable	14,713	14,713	14,873
Investments	4,462	4,462	N/A
Investments in related party	4,827	4,827	N/A
Restricted cash	812	812	812
Financial liabilities			
Accounts payable and accrued Liabilities	18,868	18,868	18,868
Due to related parties	23,500	23,500	23,500
Bank debt	59,823	59,823	59,823

Financial instruments consisting of accounts receivable, accounts payable and accrued liabilities, due to related parties, subordinated promissory note and bank debt on the statement of financial position are carried at amortized cost. 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 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, 2011 are presented in Table 2.

Table 2

($ 000s)	**March 31, 2011**
Bank debt	**70,568**
Accounts payable and accrued liabilities	**23,957**
Due to related parties	**32,000**
Subordinated promissory note	**15,000**
Current assets	**(31,180)**
Net Debt	**110,345**
Annualized cash flow from operations [1]	**75,211**
Net debt to annualized cash flow from operations	**1.47**

[1] Annualized cash flow from operations is the trailing twelve month cash flow from operations and is used to calculate the net debt to annualized cash flow from operations ratio.

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, 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 consist of a $100,000,000 revolving operating line, $20,000,000 demand operating line, a $15,000,000 subordinated promissory note and $32,000,000 due to related parties. The borrowings under these facilities are at bank prime plus or minus various percentages as well as by means of banker's acceptances (BAs) within the Company's credit facility. The Company manages its exposure to interest rate risk through entering into various term lengths on its BAs 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 (increase) annual net earnings and comprehensive income by $864,000 respectively.

Foreign exchange risk

The Company has no foreign operations and currently sells all of 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 not use 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 statement of financial position. 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; and
- Agreements for product sales are primarily on 30 day renewal terms;

Of the $20,041,000 accounts receivable balance at March 31, 2011 (December 31, 2010 - $17,345,000) over 71 percent (2010 – 88 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. During the three months ended March 31, 2011, there was no material impairment provision required on any of the financial assets of the Company due to historical success of realizing

financial assets. The Company does have a credit risk exposure as the majority of the Company's accounts receivables 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, 2011, approximately $708,000 or 3.5 percent of the Company's total accounts receivable are aged over 90 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, 2011 is $244,000 (December 31, 2010 - $100,000) with the difference being included in general and administrative expenses. There were no accounts written off during the period.

The maximum exposure to credit risk is represented by the carrying amount on the statement of financial position. 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:

($ 000s)	Recognized on Financial Statements	Less than 1 year	Over 1 year to 3 years	4 to 5 years
Accounts payable and accrued liabilities	Yes - Liability	23,957	-	-
Due to related parties	Yes - Liability	32,000	-	-
Subordinated promissory note	Yes - Liability	15,000	-	-
Bank debt	Yes - Liability	-	70,568	-
Office leases	No	918	1,187	-
Total		71,875	71,755	-

c) Risk management contracts

The Company has no outstanding risk management contracts.

19. COMMITMENTS, CONTINGENCIES AND GUARANTEES

Operating leases

The Company has entered into leases for buildings and office equipment. These leases have an average life of 2.2 years. There are no restrictions placed upon the lessee by entering into these leases. Future minimum lease payments under non-cancellable operating leases as at March 31, 2011 are as follows:

($ 000s)	2011
Within one year	918
After one year but not more than five years	1,187
Total	2,105

20. SUBSEQUENT EVENT – DIVIDENDS

Subsequent to March 31, 2011, the Company has declared the following dividends:

Date declared	Record date	$ per share	Date payable
April 4, 2011	April 15, 2011	0.24	April 29, 2011
April 27, 2011	May 16, 2011	0.26	May 31, 2011
June 2, 2011	June 15, 2011	0.26	June 30, 2011

21. TRANSITION TO IFRS

As stated in Note 2, these financial statements are the Company's first financial statements for the period ended March 31, 2011 prepared in accordance with IFRS. For all accounting periods prior to this, the Company prepared its financial statements under Canadian GAAP. An explanation of how the transition from previous GAAP to IFRS has affected the Company's statement of financial position and comprehensive income is set out in this note.

The accounting policies set out in Note 3 have been applied in preparing the financial statements for the period ended March 31, 2011, the comparative information presented in these financial statements for the period ended March 31, 2010 and as at December 31, 2010 and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (the Company's date of transition).

IFRS 1 "First-time Adoption of International Financial Reporting Standards" (IFRS 1)
IFRS 1 generally requires that first-time adopters retrospectively apply all effective IFRS standards and interpretations in effect as at the reporting date. IFRS 1 also provides for certain optional exemptions and certain mandatory exemptions to this general principle.

Initial elections upon adoption
Set forth below are the IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS.

- Business combinations (IFRS 3) - provides the option to apply IFRS 3, Business Combinations, retrospectively or prospectively from the Transition Date or an earlier date chosen by management. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. The Company elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to its Transition Date and such business combinations have not been restated.

- Share-based payments (IFRS 2) - encourages the application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Company elected to avail itself of the exemption provided under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by its Transition Date. Further, the Company applied IFRS 2 for all liabilities arising from share-based payment transactions that existed at its Transition Date. This election has no material effect on the Company's financial statements.
- Borrowing Costs (IAS 23) - requires an entity to capitalize the borrowing costs related to all qualifying assets for which the commencement date for capitalization is on or after January 1, 2010 or earlier if elected by management. Due to the short time frame to drill a well and place it on production this election has no material effect on the Company.
- Leases (IAS 17) - requires an entity to assess arrangements outstanding at the Transition Date. It also requires a determination of the appropriate lease classification in accordance with IAS 17, should an arrangement containing a lease be identified as part of the International Financial Reporting Interpretations Committee (IFRIC) 4, Determining Whether an Arrangement Contains a Lease, application. This election has no effect on the Company.

21.1 Reconciliation of the statement of financial position

($ 000s)	Notes	As at January 1, 2010			As at March 31, 2010			As at December 31, 2010		
		Canadian GAAP	IFRS Adjustments	**IFRS**	Canadian GAAP	IFRS Adjustments	**IFRS**	Canadian GAAP	IFRS Adjustments	**IFRS**
ASSETS										
Current										
Accounts receivable		14,713	-	**14,713**	17,212	-	**17,212**	17,345	-	**17,345**
Crude oil inventory		431		**431**	531	-	**531**	487		**487**
Prepaid expenses		3,247		**3,247**	3,064	-	**3,064**	1,631		**1,631**
Deferred tax asset	(b)	11,889	(11,889)	**-**	11,342	(11,342)	**-**	22,889	(22,889)	**-**
Investments		4,462		**4,462**	6,892	-	**6,892**	11,471		**11,471**
Investment in related party		4,827		**4,827**	5,517	-	**5,517**	-		**-**
		39,569	(11,889)	**27,680**	44,558	(11,342)	**33,216**	53,823	(22,889)	**30,934**
Restricted cash		812	-	**812**	612	-	**612**	-	-	**-**
Investment in related party		-	-	**-**	-	-		814	-	**814**
Exploration and evaluation assets	(a)	-	7,992	**7,992**	-	6,251	**6,251**	-	4,595	**4,595**
Property, plant and equipment	(a)	167,671	4,888	**172,559**	183,631	6,372	**190,003**	222,826	10,200	**233,026**
Investment tax credit receivable		27,670	-	**27,670**	27,670	-	**27,670**	27,670	-	**27,670**
Deferred tax asset	(b)	58,265	9,039	**67,304**	48,969	9,297	**58,266**	30,011	20,775	**50,786**
		254,418	21,919	**276,337**	260,882	21,920	**282,802**	281,321	35,570	**316,891**
		293,987	10,030	**304,017**	305,440	10,578	**316,018**	335,144	12,681	**347,825**
LIABILITIES										
Current										
Accounts payable and accrued liabilities		18,868	-	**18,868**	25,866	-	**25,866**	16,839	-	**16,839**
Due to related parties		23,500	-	**23,500**	23,500	-	**23,500**	32,000	-	**32,000**
Deferred credit	(c)	7,363	(7,363)	**-**	8,370	(8,370)	**-**	19,586	(19,586)	**-**
		49,731	(7,363)	**42,368**	57,736	(8,370)	**49,366**	68,425	(19,586)	**48,839**
Subordinate promissory note		-	-	**-**	-	-	**-**	15,000	-	**15,000**
Bank debt		59,823	-	**59,823**	63,097	-	**63,097**	70,386	-	**70,386**
Deferred credit	(c)	47,769	(47,769)	**-**	41,692	(41,692)	**-**	25,850	(25,850)	**-**
Decommissioning liabilities	(d)	17,790	3,492	**21,282**	17,523	3,412	**20,935**	17,070	6,357	**23,427**
		175,113	(51,640)	**123,473**	180,048	(46,650)	**133,398**	196,731	(39,079)	**157,652**
Shareholders' Equity										
Share capital		121,955	-	**121,955**	123,737	-	**123,737**	135,030	-	**135,030**
Contributed surplus		3,350	-	**3,350**	3,438	-	**3,438**	3,135	-	**3,135**
Accumulated other comprehensive income		2,020	-	**2,020**	4,719	-	**4,719**	5,702	-	**5,702**
Retained earnings (deficit)	(e)	(8,451)	61,670	**53,219**	(6,502)	57,228	**50,726**	(5,454)	51,760	**46,306**
Total equity		118,874	61,670	**180,544**	125,392	57,228	**182,620**	138,413	51,760	**190,173**
		293,987	10,030	**304,017**	305,440	10,578	**316,018**	335,144	12,681	**347,825**

IFRS has many similarities with Canadian GAAP as it is based on a similar conceptual framework. However, there are important differences with regard to recognition, measurement and disclosure. While adoption of IFRS did not change Bonterra's actual cash flows significantly, it resulted in changes to Bonterra's statement of financial position, statement of comprehensive income and statement of changes in equity as set out below:

a) Property, plant and equipment

	January 1, 2010 ($ 000s)
The Company exchanged certain oil and gas assets ("Asset Exchange") in Alberta for oil and gas assets in Saskatchewan. The assets received were recorded at book value of the assets disposed of under Canadian GAAP. In accordance with IFRS, the values of the assets received are to be recorded at fair value, net of depletion	11,755
Increase related to change in discount rate used to present value future oil and gas well reclamation and abandonment costs, net of depletion	1,736
The Company is required to retroactively restate its capitalized overhead relating to oil and gas assets previously reported under Canadian GAAP. Under IFRS, only directly attributable costs can be capitalized	(611)
Under Canadian GAAP, capitalized exploration and evaluation assets was included with the Company's property, plant and equipment assets. Under IFRS, exploration and evaluation assets are separately disclosed within the statement of financial position	(7,992)
Net effect – increase in PPE assets	**4,888**

	March 31, 2010 ($ 000s)
Increase related to using fair value instead of book value for the assets received in the Asset Exchange, net of depletion	11,524
Increase related to change in discount rate used to present value future oil and gas well reclamation and abandonment costs, net of depletion	1,692
Restatement of capitalized overhead from Canadian GAAP	(593)
Reclassification of E&E assets grouped with PPE assets under Canadian GAAP	(6,251)
Net effect – increase in PPE assets	**6,372**

	December 31, 2010 ($ 000s)
Increase related to using fair value instead of book value for the assets received in the Asset Exchange, net of depletion	10,884
Increase related to change in discount rate used to present value future oil and gas well reclamation and abandonment costs, net of depletion	4,480
Restatement of capitalized overhead from Canadian GAAP	(569)
Reclassification of E&E assets grouped with PPE assets under Canadian GAAP	(4,595)
Net effect – increase in PPE assets	**10,200**

21.1 Reconciliation of the statement of financial position (continued)

b) Deferred tax assets

	January 1, 2010 ($ 000s)
Increase related to using fair value instead of book value for the assets received in the Asset Exchange	(3,446)
In accordance with IFRS, a decrease in deferred taxes has resulted from the increase of the decommissioning liabilities provision (see (d) below)	442
Restatement of capitalized overhead from Canadian GAAP	154
Reclassification of deferred tax assets classified as current under Canadian GAAP to non-current	11,889
Net effect – increase in deferred tax asset	**9,039**

	March 31, 2010 ($ 000s)
Increase related to using fair value instead of book value for the assets received in the Asset Exchange	(2,625)
In accordance with IFRS, a decrease in deferred taxes has resulted from the increase of the decommissioning liabilities provision (see (d) below)	431
Restatement of capitalized overhead from Canadian GAAP	149
Reclassificiation of deferred tax assets classified as current under Canadian GAAP to non-current	11,342
Net effect – increase in deferred tax asset	**9,297**

	December 31, 2010 ($ 000s)
Increase related to using fair value instead of book value for the assets received in the Asset Exchange	(2,726)
In accordance with IFRS, a decrease in deferred taxes has resulted from the increase of the decommissioning liabilities provision (see (d) below)	470
Restatement of capitalized overhead from Canadian GAAP	142
Reclassification deferred tax assets classified as current under Canadian GAAP to non-current	22,889
Net effect – increase in deferred tax asset	**20,775**

c) Deferred credit

On November 12, 2008, Bonterra Energy Income Trust (the Trust) was acquired by Bonterra Oil & Gas Ltd. through a reverse takeover by the Trust of SRX Post Holdings Inc. (SRX). This transaction gave the Company additional tax pools in excess of the purchase price. Under Canadian GAAP, this purchase was considered an acquisition of an asset and not a business combination and therefore the resulting gain on acquisition had to be deferred and charged to net earnings on the same basis as the acquired assets. Under IFRS, the deferred gain does not meet the definition of a liability and was credited to retained earnings upon transition to IFRS.

d) Decommissioning liabilities

The discounted value of the decommissioning liabilities has increased due to a change in the discount rate used to calculate the present value of future oil and gas well reclamation and abandonments. Under Canadian GAAP a credit risk adjusted discount rate was used; under IFRS a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation has been used. In accordance with IFRS 1, the Company has elected to recognize the $3,492,000 increase in the decommissioning obligation along with an increase to the related property, plant and equipment net of depletion, deferred tax assets and retained earnings (see (a) and (b) above and (e) below) at the transition date.

Similar adjustments were made for the three months ended March 31, 2010 and for the year ended December 31, 2010 for $3,412,000 and $6,357,000, respectively to decommissioning liabilities.

e) Retained earnings

The following tables represent the cumulative effect on the above transitional adjustments on retained earnings for the respective periods covered under this reconciliation:

	January 1, 2010 ($ 000s)
Using fair value instead of book value for assets received in the Asset Exchange (see (a) and (b) above)	8,309
Restatement of capitalized overhead from Canadian GAAP (see (a) and (b) above)	(457)
Deferred credit (see (c) above)	55,132
Decommissioning liabilities (see (a), (b) and (d) above)	(1,314)
Net effect – increase in retained earnings	**61,670**

	March 31, 2010 ($ 000s)
Using fair value instead of book value for assets received in the Asset Exchange (see (a) and (b) above)	8,899
Restatement of capitalized overhead from Canadian GAAP (see (a) and (b) above)	(444)
Deferred credit (see (c) above)	50,062
Decommissioning liabilities (see (a), (b) and (d) above)	(1,289)
Net effect – increase in retained earnings	**57,228**

	December 31, 2010 ($ 000s)
Using fair value instead of book value for assets received in the Asset Exchange (see (a) and (b) above)	8,158
Restatement of capitalized overhead from Canadian GAAP (see (a) and (b) above)	(427)
Deferred credit (see (c) above)	45,436
Decommissioning liabilities (see (a), (b) and (d) above)	(1,407)
Net effect – increase in retained earnings	**51,760**

21.2 Reconciliation of the statement of comprehensive income

($ 000s)	Notes	Three months ended March 31, 2010 Canadian GAAP	IFRS Adjustments	IFRS	Year ended December 31, 2010 Canadian GAAP	IFRS Adjustments	IFRS
Revenues							
Oil and gas sales, net of royalties	(a)	24,417	(46)	24,371	107,543	(141)	107,402
Other income	(b)	5,797	185	5,982	10,856	479	11,335
		30,214	139	30,353	118,399	338	118,737
Expenses							
Production costs		6,702	-	6,702	30,451	-	30,451
Office and administration	(c)	1,508	(1,016)	492	5,406	(3,867)	1,539
Employee compensation	(c)	-	1,131	1,131	-	4,274	4,274
Finance costs	(d)	632	213	845	2,799	857	3,656
Share-based payments expense		142	-	142	483	-	483
Depletion and depreciation	(e)	4,791	35	4,826	22,278	166	22,444
		13,775	363	14,138	61,417	1,430	62,847
Earnings before income taxes		16,439	(224)	16,215	56,982	(1,092)	55,890
Income taxes							
Current	(a)	46	(46)	-	141	(141)	-
Deferred	(f)	4,353	4,264	8,617	6,977	8,959	15,936
		4,399	4,218	8,617	7,118	8,818	15,936
Net earnings for the period		12,040	(4,442)	7,598	49,864	(9,910)	39,954
Other comprehensive income							
Unrealized gains on investments		3,120	-	3,120	8,602	-	8,602
Deferred taxes on unrealized gains on investments		(421)	-	(421)	(1,192)	-	(1,192)
Realized gains on investments transferred to net earnings		-	-	-	(4,335)	-	(4,335)
Deferred taxes on realized gains on investments transferred to net earnings		-	-	-	607	-	607
Other comprehensive income for the period		2,699	-	2,699	3,682	-	3,682
Comprehensive income for the period		14,739	(4,442)	10,297	53,546	(9,909)	43,636
Net earnings per share – Basic		0.64	(0.23)	0.41	2.65	(0.53)	2.12
Net earnings per share – Diluted		0.63	(0.23)	0.40	2.58	(0.52)	2.06
Comprehensive income per share – Basic		0.79	(0.24)	0.55	2.85	(0.53)	2.32
Comprehensive income per share – Diluted		0.77	(0.23)	0.54	2.77	(0.51)	2.26

21.2 Reconciliation of the statement of comprehensive income (continued)

The nature of the adjustments is explained as follows:

a) Oil and gas sales, net of royalties

($ 000s)	Three months ended March 31, 2010	Year ended December 31, 2010
Reclassification of the Saskatchewan surcharge from taxes to royalties which are netted against revenue. This item is netted off of revenue to reflect the deduction for the other party's proportionate share of the revenue	(46)	(141)

b) Other income

($ 000s)	Three months ended March 31, 2010	Year ended December 31, 2010
Increase on the gain from the sale of property which relates to an increase in the decommissioning liabilities prior to sale (see note 21.1 (d))	73	73
Reclassification of management fee income previously netted off of office and administration expense under Canadian GAAP	112	406
	185	479

c) Office and administration

($ 000s)	Three months ended March 31, 2010	Year ended December 31, 2010
Reclassification of employee compensation grouped with office administration under Canadian GAAP	(1,131)	(4,274)
Reclassification of management fee income previously netted off of office and administration expense under Canadian GAAP	112	406
Other	3	1
	(1,016)	(3,867)

d) Finance costs

($ 000s)	Three months ended March 31, 2010	Year ended December 31, 2010
Decrease in the unwinding of the fair value of decommissioning liabilities due to the transition adjustment (see note 21.1 (d))	(8)	(17)
Reclassification of the unwinding of the fair value of decommissioning liabilities previously grouped with depletion and depreciation under Canadian GAAP	221	874
	213	857

21.2 Reconciliation of the statement of comprehensive income (continued)

e) Depletion and depreciation

($ 000s)	Three months ended March 31, 2010	Year ended December 31, 2010
Increase in depletion due to the increase in PPE (see note 21.1 (a))	256	1,040
Reclassification of the unwinding of the fair value of decommissioning liabilities previously grouped with depletion and depreciation under Canadian GAAP	(221)	(874)
	35	166

f) Deferred taxes

($ 000s)	Three months ended March 31, 2010	Year ended December 31, 2010
Increase in deferred taxes due to the removal of the deferred credit (see note 21.1 (c))	5,069	9,695
Decrease in deferred taxes due to the increase in PPE (see note 21.1 (a)) and a decrease in deferred taxes due to the increase in the decommissioning liabilities (see note 21.1 (d))	(805)	(736)
	4,264	8,959

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Head Office

901, 1015 – 4th Street SW
Calgary, Alberta T2R 1J4
PH 403.262.5307
FX 403.265.7488

Website

www.bonterraenergy.com