Bonterra Energy Corp.

Q1 For the three Months ended March 31, 2012

TSX: **BNE**
www.bonterraenergy.com

BONTERRA ENERGY REPORTS FIRST QUARTER 2012 FINANCIAL AND OPERATING RESULTS

HIGHLIGHTS

As at and for the three months ended ($ 000s except $ per share)		**March 31, 2012**	December 31, 2011	March 31, 2011
FINANCIAL				
Revenue – realized oil and gas sales		**36,893**	42,818	38,170
Funds flow [(1)]		**22,307**	26,001	27,266
Per share – basic		**1.13**	1.34	1.42
Per share – diluted		**1.13**	1.32	1.39
Payout ratio		**69%**	58%	51%
Cash flow from operations		**21,698**	26,180	24,034
Per share – basic		**1.10**	1.35	1.25
Per share – diluted		**1.10**	1.33	1.22
Payout ratio		**71%**	58%	58%
Cash dividends per share [(2)]		**0.78**	0.78	0.72
Net earnings		**10,182**	6,067	13,624
Per share – basic		**0.52**	0.31	0.71
Per share – diluted		**0.51**	0.31	0.69
Cash netback [(3)]		**35.98**	42.31	41.75
Capital expenditures and acquisitions net of dispositions		**21,413**	20,529	20,344
Total assets		**371,757**	364,176	357,000
Working capital deficiency		**57,889**	51,576	39,777
Long-term debt		**75,543**	69,916	70,568
Shareholders' equity		**181,008**	181,640	192,054
OPERATIONS				
Oil	– barrels per day	**3,975**	4,096	4,258
	– average price ($ per barrel)	**88.48**	96.25	85.02
NGLs	– barrels per day	**419**	493	338
	– average price ($ per barrel)	**60.29**	59.46	55.23
Natural gas	– MCF per day	**12,260**	12,541	10,517
	– average price ($ per MCF)	**2.32**	3.34	4.12
Total BOE per day [(4)]		**6,438**	6,679	6,350

[(1)] Funds flow is not a recognized measure under IFRS. For these purposes, the Company defines funds flow as funds provided by operations including proceeds from sale of investments and investment income received excluding the effects of changes in non-cash operating working capital items and decommissioning expenditures settled.
[(2)] Cash dividends per share are based on payments made in respect of production months within the period ended.
[(3)] Cash netback is not a recognized measure under IFRS. Cash netback is oil and gas sales less royalties, production costs, general and administrative costs, interest and other expense on a per BOE basis.
[(4)] Barrels of oil equivalent (BOE) may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 MCF: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

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, 2012. During the first quarter, Bonterra continued to focus its capital expenditure program on its high-quality, light oil prospects in the Pembina and Willesden Green Cardium fields.

Operations

Production in the first quarter of 2012 averaged 6,438 BOE per day. Production remained relatively flat when compared with the first quarter of 2011 and decreased approximately 3.6 percent quarter over quarter. Production was negatively impacted by a number of shut-ins which included approximately 140 BOE per day due to multi-well pad drilling (existing producing wells on a pad must be shut-in when additional wells are drilled on that pad), completions and workovers and 75 BOE per day due to gas plant turnarounds for the quarter. The Company also felt the effects of gathering system pressure constraints due to increased industry activity straining infrastructure in Pembina causing the Company to restrict production. The issues are currently being addressed and their impact has been minimized. Bonterra will continue to focus on infrastructure optimization in the future to maximize production. In addition, Bonterra has continued to shut-in approximately 130 BOE per day of natural gas due to sustained weakness in natural gas prices.

Capital expenditures for the quarter were approximately $21.4 million related mainly to the Company's drilling program with five gross (five net) operated wells drilled, including two 100 percent wells in the main Pembina Cardium pool and three in the halo area of the pool. Due to multi-well pad drilling and spring breakup, three gross (three net) wells drilled in the first quarter, including the two main pool wells, were not frac'd and on production prior to quarter-end. These wells will be completed as soon as road-bans end, typically in late May each year. In addition, Bonterra participated in drilling two gross (0.3 net) non-operated main pool Pembina Cardium wells in the Berrymoor Unit during the first quarter of 2012. The wells came on production subsequent to quarter-end and are producing at favorable rates.

The Company's full year capital expenditure guidance remains at $65 million. The majority of the additional 28 gross (18.83 net) wells planned will be located within the main pool of its Pembina Cardium field. The offset horizontal development of the main pool by industry peers has de-risked a large portion of Bonterra's acreage in this area and positive results to date suggest that a significant recoverable resource remains. In addition, the Company engaged a third party engineering company in the first quarter of 2012 to conduct a reservoir simulation study to assess different development schemes and to further optimize Bonterra's ability to recover a larger percent of the original oil in place. The summer drilling program will commence once spring break-up ends and the Company will once again have two rigs employed full-time to carry out its drilling program.

The Company continues to forecast 2012 production levels between 6,700 and 7,000 BOE per day.

Financial

Oil and natural gas prices decreased significantly quarter over quarter. The Company's average realized price for crude oil in the first quarter of 2012 was $88.48 per BOE compared with $96.25 per BOE in the fourth quarter of 2011, an eight percent decrease. Oil prices were negatively impacted by a widening of the Canadian crude oil differential. Bonterra receives the Edmonton Par price for its oil sales which has experienced extreme volatility in 2012 and at times it traded up to $25.00 less than the Western Texas Intermediate (WTI) price. The large price differentials are a result of increasing North American production volumes and inadequate pipeline capacity caused by pipeline outages and refinery turnarounds restricting the increased crude oil production from reaching markets. The Company has sought to minimize the effects of the pricing differential by maximizing its crude oil tank inventory levels and minimizing production interruption costs. The differential has tightened considerably in the second quarter and the Company now anticipates selling its increased inventory for more favourable prices during this period. During the first quarter, natural gas prices continued to decline averaging $2.32 per MCF versus $3.34 per MCF in the prior quarter; a decrease of 30.5 percent. This is due to high North American production rates and high storage levels compared to previous years.

As a result of the lower prices received during the quarter and reduced production volumes, quarter over quarter revenue and cash flow from operations decreased 13.8 and 17.1 percent, respectively. Despite these lower levels, the Board of Directors and management have maintained the monthly dividend to shareholders at $0.26 per share, including the recently announced April dividend payable on May 31, 2012. This represents a payout ratio of 69 percent of funds flow which is slightly higher than the Company's guidance of 50 to 65 percent. The Company anticipates that the payout ratio will be in line with guidance in subsequent quarters as production volumes, production costs and the pricing differentials improve. The Company's Board and management will continue to assess the dividend on a monthly basis and will continue to be influenced by production volumes and commodity prices.

The Company continues to effectively manage its balance sheet strength with a net debt to annualized funds flow ratio of 1.37 times, well within the Company's forecasted range of 1.0 to 1.5 times.

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. The Company intends to aggressively develop its Pembina Cardium main pool opportunities to continue to add value for shareholders.

In addition, the lower price environment may continue to provide opportunities for the Company to further grow its asset base through land or corporate acquisitions. Bonterra has been actively assessing the marketplace and will continue to look at a number of short, medium and longer term opportunities to add further value.

Subsequent to quarter-end, President and Chief Operating Officer Randy Jarock gave notice of his retirement effective June 30, 2012. He will continue his association with the Company by becoming a member of its Board of Directors. Bonterra is now actively recruiting a replacement. Bonterra and its Board of Directors wish to take this opportunity to thank Mr. Jarock for his many years of service and the significant contributions he made to the Company's success and look forward to his contribution in the future as a member of the Board.

George F. Fink	Randy M. Jarock
Chief Executive Officer and Chairman of the Board	President and Chief Operating Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following report dated May 10, 2012 is a review of the operations and current financial position for the three months ended March 31, 2012 for Bonterra Energy Corp. (Bonterra or the Company) and should be read in conjunction with the unaudited interim condensed consolidated financial statements and the audited financial statements including the notes related thereto for the fiscal year ended December 31, 2011 presented under International Financial Reporting Standards (IFRS).

Use of Non-IFRS Financial Measures

Throughout this Management's Discussion and Analysis (MD&A) the Company uses 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.

The Company calculates payout ratio by dividing cash dividends paid to shareholders 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 financial statement items as determined by IFRS by total production for the period 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

	2012	2011			
Financial ($ 000s except $ per share)	**Q1**	Q4	Q3	Q2	Q1
Revenue – oil and gas sales	**36,893**	42,818	36,535	44,754	38,170
Cash flow from operations	**21,698**	26,180	21,730	25,465	24,034
Per share – basic	**1.10**	1.35	1.12	1.32	1.25
Per share – diluted	**1.10**	1.33	1.10	1.29	1.22
Cash dividends per share (1)	**0.78**	0.78	0.78	0.78	0.72
Payout Ratio	**71%**	58%	69%	59%	58%
Net earnings	**10,182**	6,067	9,384	14,533	13,624
Per share – basic	**0.52**	0.31	0.49	0.75	0.71
Per share – diluted	**0.51**	0.31	0.48	0.74	0.69
Capital expenditures and acquisitions, net of disposals	**21,413**	20,529	15,941	5,872	20,344
Total assets	**371,757**	364,176	354,549	348,097	357,000
Working capital deficiency	**57,889**	51,576	43,362	30,823	39,777
Long-term debt	**75,543**	69,916	72,391	72,608	70,568
Shareholders' equity	**181,008**	181,640	185,908	192,297	192,054
Operations					
Oil (barrels per day)	**3,975**	4,096	3,789	4,164	4,258
NGLs (barrels per day)	**419**	493	340	372	338
Natural gas (MCF per day)	**12,260**	12,541	10,553	11,024	10,517
Total BOE per day (2)	**6,438**	6,679	5,887	6,373	6,350

	2010			
Financial ($ 000s except $ per share)	Q4	Q3	Q2	Q1
Revenue – oil and gas sales	34,208	28,332	29,191	27,248
Cash flow from operations	16,989	17,544	16,644	15,061
Per share – basic	0.90	0.93	0.89	0.81
Per share – diluted	0.88	0.91	0.87	0.78
Cash dividends per share (1)	0.68	0.66	0.64	0.57
Payout Ratio	76%	71%	72%	70%
Net earnings	11,837	10,130	10,388	7,598
Per share – basic	0.62	0.54	0.55	0.41
Per share – diluted	0.61	0.52	0.54	0.40
Capital expenditures and acquisitions, net of disposals	25,318	19,227	10,994	15,141
Total assets	347,825	328,621	318,251	316,018
Working capital deficiency	17,905	20,653	4,020	16,150
Long-term debt	85,386	73,901	78,434	63,097
Shareholders' equity	190,173	182,627	182,774	182,620
Operations				
Oil (barrels per day)	4,062	3,579	3,607	3,080
NGLs (barrels per day)	316	311	267	265
Natural gas (MCF per day)	10,214	10,674	11,157	10,038
Total BOE per day (2)	6,080	5,669	5,733	5,018

(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, 2012	December 31, 2011	March 31, 2011
Crude oil (barrels per day)	**3,975**	4,096	4,258
NGLs (barrels per day)	**419**	493	338
Natural gas (MCF per day)	**12,260**	12,541	10,517
Average BOE per day	**6,438**	6,679	6,350

Barrels of oil equivalent (BOE) may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 MCF: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Production volumes for the first three months of 2012 increased to 6,438 BOE per day compared to 6,350 BOE per day for the same period one year ago. The production increase for Q1 2012 compared with Q1 2011 was nominal. The first quarter of 2011 benefited as four wells drilled in the fourth quarter of 2010 were carried over and put on production during the quarter compared to only two wells drilled in the fourth quarter of 2011 which were carried over and brought on production in the first quarter of 2012. The construction of a permanent tie-in to a low pressure gas gathering system in December 2011 assisted in alleviating operating issues and increased production at Willesden Green but this was more than offset by a number of shut-in production related issues.

During the first quarter drilling program, the Company drilled, completed and worked over wells on an existing multi well pad in the Willesden Green area and when drilling additional wells all other wells on this pad must be shut in which resulted in lost production averaging 140 BOE per day over the entire quarter.

In addition, the Company experienced shut-in production for compressor overhauls by the operator of a major gas plant. This resulted in an estimated average shut-in production of 75 BOE per day for the entire quarter.

The Company also felt the effects of gathering system pressure constraints and pipeline apportionments due to increased industry activity straining infrastructure resulting in production restrictions and causing the Company to maintain higher than usual oil inventory levels at March 31, 2012.

In 2012, the Company will be completing a field optimization program to redirect its natural gas pipelines to alleviate existing pressure constraints that are due to increased production from increased drilling activity in the Pembina field.

These shut-in production issues in addition to natural production declines and the inability to get three net wells tied in prior to quarter end caused production to decrease by four percent from the fourth quarter of 2011. Due to low natural gas prices in the quarter, the Company also continued to have approximately 130 BOE per day of shut-in production from 21 shallow natural gas wells.

During the first quarter of 2012 the Company placed two gross (two net) wells that were drilled in 2011, on production and drilled five gross (five net) wells in the quarter, of which two were placed on production. The remaining three wells will be placed on production after spring break-up. Two gross (0.30 net) non-operated wells were drilled in Q1 2012 and were placed on production in mid-April.

Oil and Gas Sales, Net of Royalties

	Three months ended		
($ 000s)	**March 31, 2012**	December 31, 2011	March 31, 2011
Revenue – oil and gas sales	**36,893**	42,818	38,170
Less:			
Crown royalties	**(3,146)**	(2,993)	(2,353)
Freehold, gross overriding and other royalties	**(1,450)**	(1,277)	(1,011)
Total royalties	**(4,596)**	(4,270)	(3,364)
Oil and gas sales, net of royalties	**32,297**	38,548	34,806
Average Realized Prices ($):			
Crude oil (per barrel)	**88.48**	96.25	85.02
NGLs (per barrel)	**60.29**	59.46	55.23
Natural gas (per MCF)	**2.32**	3.34	4.12
Crown royalties - percentage of revenue	**8.5**	7.0	6.2
Freehold, gross overriding and other royalties - percentage of revenue	**3.9**	3.0	2.6
Royalties – percentage of revenue	**12.5**	10.0	8.8
Royalties $ per BOE	**7.85**	6.95	5.89

Revenue from petroleum and natural gas sales decreased by $1,227,000 or three percent in the first quarter of 2012 compared to the corresponding quarter in 2011, due to a seven percent decrease in oil production and a 42 percent decrease in natural gas prices which was partially offset by increased natural gas production of 17 percent.

Pricing for crude oil increased by only four percent in the first quarter of 2012 compared to the first quarter of 2011 due to large differentials between West Texas Intermediate (WTI) and Edmonton par (which is the price the Company receives for its oil sales). These large price differentials of between $5 and $25 per barrel (compared to approximately $4.50 in Q1 2011) are a result of increases in North American production volumes resulting in insufficient pipeline capacity to transport the increased production volumes to preferred markets.

Quarter over quarter saw a decrease in revenues of $5,925,000, due to an eight percent decrease in crude oil prices resulting from higher differentials during the first quarter of 2012. In addition, pipeline apportionments reduced average crude oil prices as the Company was forced to sell a portion of its crude oil inventory at lower spot prices instead of the purchaser's price because its field tanks were completely filled. The Company also experienced a 31 percent decrease in natural gas prices.

The Company has managed the fluctuating crude oil pricing differentials and pipeline apportionments by controlling crude oil inventory levels and minimizing production interruption costs. Industry projections for the second quarter of 2012 are that apportionments will be more favourable and crude oil pricing differentials will be lower which may assist the Company in selling its production and crude oil inventory for more favourable prices.

The Company's product split on a revenue basis for the first quarter of 2012 is approximately 93 percent weighted towards crude oil and NGLs. This ratio will likely remain similar as long as liquid prices remain high and natural gas prices remain extremely low.

Royalties paid by the Company consist primarily of Crown royalties paid to the Provinces of Alberta, Saskatchewan and British Columbia. Approximately half of the Company's production is from low productivity wells and therefore has reduced Crown royalty rates. The Company's average Crown royalty rate is approximately 8.5 percent for the three months ended March 31, 2012 compared to 6.2 percent for the comparable period one year ago. The increase is primarily due to higher commodity prices for crude oil and natural gas liquids and a number of horizontal Cardium wells no longer being eligible for the initial five percent royalty rate due to accumulated production thresholds being reached.

Quarter over quarter saw Crown royalties increase to 8.5 percent in Q1 2012 compared to 7.0 percent for Q4 2011. Crown royalty increases for the first three months of 2012 compared to Q4 2011 were primarily due to positive NGL crown royalty adjustments recorded in fourth quarter of 2011 relating to previous periods, partially offset by decreased crude oil and natural gas prices in Q1 2012.

The Company's average non-crown royalty rate was 3.9 percent of oil and gas sales for the three months ended March 31, 2012 compared to 2.6 percent one year ago. The increase of $439,000 in non-crown royalties for the first three months of 2012 compared to 2011 is primarily due to increased production and commodity prices for crude oil and natural gas liquids, in addition to a negative $265,000 freehold royalty adjustment recorded in the first quarter of 2012. Quarter over quarter saw an increase in the non-crown royalty rate to 3.9 percent of oil and gas sales for Q1 2012 compared to 3.0 percent for Q4 2011. The increase in non-crown royalties is primarily due to the freehold royalty adjustment, partially offset by decreased commodity prices.

Other Income

	Three months ended		
($ 000s)	**March 31, 2012**	December 31, 2011	March 31, 2011
Gain on sale of property	**1,109**	-	4
Gain on sale of investments	**445**	-	1,854
Investment income	**6**	5	1
Administrative income	**82**	79	82
	1,642	84	1,941

During the first three months of 2012 the Company disposed a portion of its Central Alberta Redwater property for cash proceeds of $1,109,000, equal to the accounting gain, as this property had no carrying value. The Company also disposed of a portion of its investments for gross proceeds of $1,231,000 resulting in an accounting gain of $445,000. During the same three month period in 2011, the Company disposed of a portion of its investments for gross proceeds of $3,404,000 resulting in an accounting gain of $1,854,000. The market value of the investments held by the Company is in excess of $6,000,000 at March 31, 2012 (December 31, 2011 - $6,800,000).

Production Costs

	Three months ended		
($ 000s except $ per BOE)	**March 31, 2012**	December 31, 2011	March 31, 2011
Production costs	**9,056**	9,824	8,325
$ per BOE	**15.46**	15.99	14.57

Total production costs for the first three months of 2012 have increased by $731,000 over the same period one year ago mainly due to prior period equalizations in 2012 amounting to $700,000, which was partially offset by lower costs related to new gas and oil facility tie-ins at the Willesden Green battery in December of 2011 and the Warburg battery in September of 2011. On a per BOE basis, production costs have increased by approximately 6 percent. Overall production costs have fallen by 2 percent to $14.26 per BOE, before taking into account prior period equalizations.

Q1 2012 over Q4 2011 saw a decrease in production costs of eight percent (fifteen percent factoring out the prior period equalizations) due to decreased oil trucking, chemical and treating and road and lease maintenance costs due to recent pipeline tie-ins at the Willesden Green and Warburg batteries and shut-production.

Approximately half of the Company's production comes primarily from low productivity wells. These wells generally have higher productions costs on a unit-of-production basis as costs such as municipal taxes, surface leases, power and personnel costs are not variable with production volumes. In the future, the Company's horizontal drilling program, improved tie-ins and upgraded facilities should lower production costs on a unit-of-production basis.

General and Administration (G&A) Expense

	Three months ended		
($ 000s except $ per BOE)	**March 31, 2012**	December 31, 2011	March 31, 2011
Employee compensation expense	**1,062**	896	1,260
Office and administration expense	**311**	1,059	575
	1,373	1,955	1,835
$ per BOE	**2.34**	3.18	3.21

Total G&A expense decreased 25 percent to $1,373,000 for the three months ended March 31, 2012 from $1,835,000 in the same period in 2011.

The decrease in employee compensation expense of $198,000 for the three months ended March 31, 2012 compared to the same period one year ago was primarily due to a decrease in accrued bonuses, resulting from lower net earnings before income taxes. The Company has a bonus plan in which the bonus pool consists of three percent of earnings before income taxes. The bonus pool is determined entirely by this three percent of earnings as 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.

Quarter over quarter employee compensation expense increased by $166,000, due to higher net earnings before income taxes. This was partially offset by reduced employee costs due to decreased staff levels during the first quarter of 2012.

The decrease in office and administration expense for the three months ended March 31, 2012 related primarily to decreased engineering consulting fees, office rent, regulatory filing and printing fees and a decrease in the provision in the allowance for doubtful accounts compared to the same period in 2011. This was partially offset by increased accounting consulting fees and a reduction in overhead charged to partners.

Quarter over quarter office and administration expense saw a decrease of $748,000 related to a decrease in engineering consulting and legal fees.

Finance Costs

($ 000s except $ per BOE)	Three months ended March 31, 2012	December 31, 2011	March 31, 2011
Interest on long-term debt	**578**	547	569
Other interest	**302**	305	298
Interest expense	**880**	852	867
$ per BOE	**1.50**	1.39	1.52
Unwinding of the fair value of decommissioning liabilities	**218**	339	206
Total finance costs	**1,098**	1,191	1,073

Interest on long-term debt remained relatively unchanged from the first quarter of 2012 compared to the first and fourth quarters of 2011 as the Company maintained a stable level of debt and interest rates.

Other interest relates to amounts paid to related parties (see related party transactions) and a $15,000,000 subordinated promissory note from a private investor.

As at March 31, 2012 and December 31, 2011, 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, 2012 were $75,543,000 (December 31, 2011 - $69,916,000). Amounts borrowed under the credit facility at March 31, 2012 bear interest at a floating rate based on the applicable Canadian prime rate or Banker's Acceptance rate, plus between 0.75 percent and 3.50 percent, depending on the type of borrowing and the Company's consolidated total funded debt to consolidated cash flow. The terms of the revolving credit facility provided that the loan is revolving to April 26, 2012 and with a maturity date of April 25, 2013 and is subject to annual review. The revolving credit facility has no fixed terms of repayment.

At March 31, 2012, the Company is in compliance with all of its bank covenants.

Effective April 20, 2012, the Company renewed its bank facility under similar terms and conditions with the exception of extending the revolving period to April 25, 2013, the maturity date to April 25, 2014, and increased its syndicated revolving credit facility from $100,000,000 to $120,000,000. The total syndicated and non-syndicated credit facilities of $140,000,000 will bear interest at a floating rate based on applicable Canadian prime rate or Banker's Acceptance rate, plus between 0.75 percent and 3.50 percent, depending on the type of borrowing and the Company's consolidated total funded debt to consolidated cash flow.

Share-Based Payments

($ 000s)	Three months ended March 31, 2012	December 31, 2011	March 31, 2011
	1,072	822	**145**

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 $3,262,000 will be recorded for the balance of 2012, $1,818,000 for 2013, $135,000 for 2014 and $12,000 for 2015.

During the first three months of 2012, the Company issued 93,000 stock options to employees, directors and consultants with an estimated fair value of $576,000 ($6.20 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 1.2 percent, an expected weighted average volatility of 30.9 percent, an expected weighted average life of 2.0 years and a weighted average dividend yield of 5.9 percent. Also, 16,000 options were forfeited during the quarter causing $59,000 of previously recorded share-based payments expense to be reversed.

Depletion and Depreciation

	Three months ended		
($ 000s)	**March 31, 2012**	December 31, 2011	March 31, 2011
Depletion and depreciation	**7,628**	13,467	6,479
Impairment of natural gas assets	**-**	2,585	-

Capital costs for oil and gas properties that result in the addition of reserves are depleted using the unit-of-production basis by field over their total developed reserve life which includes proved plus probable developed reserves only. The Company adjusted its estimate from using a proved developed reserve base to total developed reserve base to better reflect the asset life expectancy of the Company's Pembina Cardium and Willesden Green properties through the application of the horizontal drilling program.

For production facility and equipment expenditures such as well and production processing equipment, the Company uses a 10 percent declining basis for depreciation calculation.

Provision for depletion and depreciation increased for the three months ended March 31, 2012 over March 31, 2011. The increase in depletion was the result of a significant decommissioning liability adjustment of $11,354,000 due to a decrease in the risk free discount rate, thereby increasing property, plant and equipment in the fourth quarter of 2011.

Depletion and depreciation decreased by 43 percent in the first quarter of 2012 over the fourth quarter of 2011. This was mainly a result of the change in estimate which resulted in $2,611,000 reduced depletion in the first quarter of 2012, in addition to less flush production from fewer new wells coming on stream in 2012 compared to 2011.

Due to reductions in the future commodity price forecasts for natural gas used in the Company's December 31, 2011 reserve report when compared to December 31, 2010, the Company recorded an impairment on minor natural gas assets in British Columbia, as the carrying amount was greater than the discounted amount calculated in the reserve report. Based on this assessment, the Company determined that $2,585,000 comprised of $914,000 of Exploration and Evaluation assets and $1,671,000 of Property, Plant and Equipment assets within the British Columbia area were impaired in the fourth quarter of 2011. Should the forward prices for natural gas increase, the Company will reverse the impairment expense up to the original carrying value less depletion and depreciation.

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	34,391
Eligible capital expenditures	7	6,258
Canadian oil and gas property expenditures	10	16,355
Canadian development expenditures	30	109,334
Canadian exploration expenditures	100	11,174
SR&ED expenditures	100	1,616
Income tax losses carried forward [(1)]	100	223,665
		402,793

[(1)] Federal income tax losses carried forward expire in the following years; 2013 - $1,069,000, 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, 2011 - $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 $136,296,000 (December 31, 2011 - $137,514,000) 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 deferred income tax asset.

Net Earnings

	Three months ended		
($ 000s except $ per share)	**March 31, 2012**	December 31, 2011	March 31, 2011
Net earnings	**10,182**	6,067	13,624
$ per share – basic	**0.52**	0.31	0.71
$ per share – fully diluted	**0.51**	0.31	0.69

Net earnings decreased in the first three months of 2012 by $3,442,000 or 25 percent from the corresponding 2011 period. Decreased net earnings resulted primarily from lower natural gas prices, decreased crude oil production, increased royalty and production costs and share-based payments expense. This increase was partially offset by higher crude oil and natural gas liquid prices, increase in natural gas and natural gas liquid production, lower G&A expenditures and a decrease in deferred tax expense.

The Company returned in excess of 28 percent of its gross realized revenues in net earnings in the three month period. 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 2012 compared to Q4 2011 is the result of lower depletion and depreciation expense, production and G&A costs and a gain on sale of a non-strategic property in Q1 2012. In addition an impairment provision was recorded in Q4 2011. The increase in net earnings was partially offset by lower crude oil and natural gas prices and production volumes.

Other Comprehensive Income

Other comprehensive income for the first three months of 2012 consists of an unrealized gain before tax on investments (including investments in a related party) of $360,000 relating to an increase in the investments' fair value (March 31, 2011 – unrealized gain of $1,654,000 relating to an increase in the investments' fair value). The Company also disposed of a portion of these investments in the first three months of 2012 for a realized gain before tax of $445,000 (March 31, 2011 - $1,854,000). 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, 2012**	December 31, 2011	March 31, 2011
Cash flow from operations	**21,698**	26,180	24,034
$ per share – basic	**1.10**	1.35	1.25
$ per share – fully diluted	**1.10**	1.33	1.22

The first three months of 2012 cash flow from operations decreased $2,336,000 or 10 percent compared to the first three months of 2011 primarily due to decreased natural gas prices, increased royalty and production costs, partially offset by higher natural gas production and natural gas liquid revenue and decreased G&A expenditures. The quarter over quarter decrease of $4,482,000 or 21 percent was due primarily to decreased crude oil and natural gas pricing partially offset by a decrease in production costs and G&A expenditures.

Cash Netback

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

$ per BOE	**March 31, 2012**	December 31, 2011	March 31, 2011
Production volumes (BOE)	**585,829**	614,482	571,458
Gross production revenue	**$ 62.98**	$ 69.68	$ 66.79
Royalties	**(7.85)**	(6.95)	(5.89)
Field operating costs	**(15.46)**	(15.99)	(14.57)
Field netback	**39.67**	46.74	46.33
General and administrative	**(2.34)**	(3.18)	(3.21)
Interest and other	**(1.35)**	(1.25)	(1.37)
Cash netback	**$ 35.98**	$ 42.31	$ 41.75

Related Party Transactions

The Company holds 689,682 (December 31, 2011 – 689,682) common shares in Geomark Exploration Ltd. (Geomark) which have a fair market value as of March 31, 2012 of $586,000 (December 31, 2011 - $566,000). Geomark is a publically traded minerals exploration company listed on the TSX Venture Exchange under the symbol GME. The Company has common directors and some common management with Geomark. In addition, Geomark owns 204,633 (December 31, 2010 – 204,633) common shares in Bonterra. Bonterra's 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, 2011 - $67,500). 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 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, 2012, Geomark owed the Company $36,000 (December 31, 2011 - $74,000).

As at March 31, 2012, Geomark has loaned the Company $20,000,000 (December 31, 2010 – $20,000,000). The loan bears interest at Canadian chartered bank prime less 5/8 of a percent and has no set repayment terms but is payable on demand. Security under the debenture is over all of the Company's assets and is subordinated to any and all claims in favour of the syndicate of senior lenders providing credit facilities to the Company. 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 three months of 2012 was $118,000 (March 31, 2011 - $117,000). This loan results in 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 substantially 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 some common directors and some common 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, 2011 - $15,000). Services provided by the Company include executive services, 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, 2012, the Company had an account receivable from Pine Cliff of $2,000 (December 31, 2011 – $4,000).

As at March 31, 2012, the Company's CEO, Chairman of the Board and major shareholder has loaned the Company $12,000,000 (December 31, 2011 - $12,000,000). The loan bears interest at Canadian chartered bank prime less 5/8th of a percent and has no set repayment terms but is payable on demand. Security under the debenture is over all of the Company's assets and is subordinated to any and all claims in favour of the syndicate of senior lenders providing credit facilities to the Company. 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 three months of 2012 was $72,000 (March 31, 2011 - $70,000). This loan results in a substantial benefit to Bonterra as the interest paid to the CEO by Bonterra is lower than bank interest.

Liquidity and Capital Resources

During the first three months of 2012, the Company incurred capital costs of $21,413,000 (2011 - $20,344,000 net of drilling credits) and proceeds on disposal of property, plant and equipment. The costs relate primarily to the drilling of five gross (five net) Pembina and Willesden Green Cardium horizontal wells of which two of these wells were completed, equipped and tied-in prior to March 31, 2012. The remaining three wells will be fraced, equipped and tied-in after spring break up.

The Company currently has plans to spend $65,000,000 on its 2012 Pembina Cardium horizontal well program and non-operated capital programs. Bonterra anticipates funding the 2012 capital program from 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, 2012 and December 31, 2011, the Company has a bank facility consisting of a $100,000,000 (effective April 20, 2012 - $120,000,000) syndicated revolving credit facility and a $20,000,000 non-syndicated revolving credit facility. Amounts drawn under these facilities at March 31, 2012 were $75,543,000 (December 31, 2011 - $69,916,000). The interest rates on the outstanding debt as of March 31, 2012 were 3.8 percent and 3.0 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 conservative 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, 2012	19,571,316	142,567
Options exercised	171,725	3,520
Transfer of contributed surplus to share capital		236
Balance, March 31, 2012	19,743,041	146,323

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 1,974,304 (December 31, 2011 – 1,957,131) 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, 2012 and December 31, 2011, and changes during the nine month and twelve month periods ended on those dates is presented below:

	March 31, 2012		December 31, 2011	
	Options	**Weighted-Average Exercise Price**	Options	Weighted-Average Exercise Price
Outstanding at beginning of period	**1,468,225**	**$ 46.63**	747,000	$ 20.56
Options granted	**93,000**	**52.58**	1,142,000	54.54
Options exercised	**(171,725)**	**20.50**	(351,775)	20.32
Options cancelled	**-**	**-**	(11,000)	14.90
Options forfeited	**(16,000)**	**58.01**	(58,000)	32.14
Outstanding at end of period	**1,373,500**	**$ 50.17**	1,468,225	$ 46.63
Options exercisable at end of period	**212,500**	**$ 28.52**	333,225	$ 20.75

The following table summarizes information about options outstanding at March 31, 2012:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number outstanding at March 31, 2012	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at March 31, 2012	Weighted-average exercise price
$ 20.50	166,500	0.7 years	$ 20.50	166,500	$ 20.50
48.00 – 53.00	601,500	2.8 years	50.50	6,000	50.11
54.00 – 59.00	605,500	2.9 years	57.99	40,000	58.67
$ 20.50 – $ 59.00	1,373,500	2.6 years	$ 50.17	212,500	$ 28.52

Dividend Policy

For the three months ended March 31, 2012, Bonterra paid dividends of $15,332,000 ($0.78 per share) compared to $13,872,000 ($0.72 per share) in the same period in 2011. Bonterra's dividend policy is regularly monitored and is dependent upon production, commodity prices, funds from operations, debt levels and capital expenditures. With its large inventory of undrilled locations, Bonterra continues to be well positioned to provide its shareholders a combination of sustainable growth and meaningful dividend 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 (CEO) and Chief Financial Officer (CFO), together with management, have concluded, based on their evaluation as of the end of the period covered by the interim filing 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 CEO and CFO 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's CEO and CFO are responsible for establishing and maintaining Disclosure Controls and Procedures (DC&P) and adequate Internal Control over Financial Reporting (ICFR) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements at the financial period end for external purposes in accordance with International Financial Reporting Standards. The control framework the Company used to design its ICFR was in accordance with the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's CEO and CFO have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal control over financial reporting at the financial year end of the Company and concluded that the Company's internal controls over financial reporting are effective, at the financial period end of the Company for the foregoing purpose.

All internal control systems, no matter how well designed, have inherent limitations. These systems, therefore, provide reasonable but not absolute assurance that financial information is accurate and complete.

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 have approved the financial statements as presented in this interim report.

CONDENSED STATEMENTS OF FINANCIAL POSITION

As at (unaudited) ($ 000s)	Note	**March 31, 2012**	December 31, 2011
Assets			
Current			
Accounts receivable		**14,260**	17,094
Crude oil inventory		**828**	1,092
Prepaid expenses		**1,574**	1,688
Investments		**5,560**	6,266
		22,222	26,140
Investment in related party	3	**586**	566
Exploration and evaluation assets		**1,995**	1,989
Property, plant and equipment	4	**289,355**	274,361
Investment tax credit receivable	5	**27,670**	27,670
Deferred tax asset	5	**29,929**	33,450
		371,757	364,176
Liabilities			
Current			
Accounts payable and accrued liabilities		**33,111**	30,716
Due to related parties	6	**32,000**	32,000
Subordinated promissory note	7	**15,000**	15,000
		80,111	77,716
Bank debt	8	**75,543**	69,916
Decommissioning liabilities		**35,095**	34,904
		190,749	182,536
Shareholders' equity			
Share capital	9	**146,323**	142,567
Contributed surplus		**6,138**	5,302
Accumulated other comprehensive income		**2,588**	2,662
Retained earnings		**25,959**	31,109
		181,008	181,640
		371,757	364,176

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

For the three months ended March 31 (unaudited) ($ 000s, except $ per share)	Note	**2012**	2011
Revenue			
Oil and gas sales, net of royalties	10	**32,297**	34,806
Other income	11	**1,642**	1,941
		33,939	36,747
Expenses			
Production costs		**9,056**	8,325
Office and administration		**311**	575
Employee compensation		**1,062**	1,260
Finance costs		**1,098**	1,073
Share-based payments		**1,072**	145
Depletion and depreciation		**7,628**	6,479
		20,227	17,857
Earnings before income taxes		**13,712**	18,890
Deferred income taxes		**3,530**	5,266
Net earnings for the period		**10,182**	13,624
Other comprehensive income			
Unrealized gains on investments		**360**	1,654
Deferred taxes on unrealized gains on investments		**(45)**	(169)
Realized gains on investments transferred to net earnings		**(445)**	(1,854)
Deferred taxes on realized gains on investments transferred to net earnings		**56**	246
Other comprehensive loss for the period		**(74)**	(123)
Comprehensive income for the period		**10,108**	13,501
Net earnings per share - basic	9	**0.52**	0.71
Net earnings per share – diluted	9	**0.51**	0.69
Comprehensive income per share - basic	9	**0.51**	0.70
Comprehensive income per share – diluted	9	**0.51**	0.69

See accompanying notes to these condensed financial statements.

Condensed Statements of Cash Flows

For the three months ended March 31 (unaudited)

($ 000s)	**2012**	2011
Operating activities		
Earnings before income taxes	**13,712**	18,890
Items not affecting cash		
Share-based payments	**1,072**	145
Depletion and depreciation	**7,628**	6,479
Unwinding of the discounted value of decommissioning liabilities	**218**	206
Gain on sale of property	**(1,109)**	(4)
Gain on sale of investments	**(445)**	(1,854)
Investment income	**(6)**	(1)
Interest expense	**880**	867
Change in non-cash working capital		
Accounts receivable	**3,098**	(848)
Crude oil inventory	**160**	-
Prepaid expenses	**114**	449
Accounts payable and accrued liabilities	**(2,717)**	782
Decommissioning expenditures	**(27)**	(210)
Interest paid	**(880)**	(867)
Cash provided by operating activities	**21,698**	24,034
Financing activities		
Increase in bank debt	**5,627**	182
Stock option proceeds	**3,520**	2,107
Dividends	**(15,332)**	(13,872)
Cash used in financing activities	**(6,185)**	(11,583)
Investing activities		
Investment income received	**6**	1
Exploration and evaluation expenditures	**(6)**	(149)
Property, plant and equipment expenditures	**(22,516)**	(20,203)
Proceeds on sale of property	**1,109**	8
Purchase of investments	**(185)**	-
Proceeds on sale of investments	**1,231**	3,404
Change in non-cash working capital		
Accounts payable and accrued liabilities	**5,112**	6,336
Accounts receivable	**(264)**	(1,848)
Cash used in investing activities	**(15,513)**	(12,451)
Net cash inflow	**-**	-
Cash, beginning of period	**-**	-
Cash, end of period	**-**	-

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENT OF CHANGES IN EQUITY

For the periods ended (unaudited)

($ 000s, except for number of shares outstanding)

	Number of shares outstanding (Note 9)	Share Capital (Note 9)	Contributed Surplus (1)	Accumulated other comprehensive income (2)	Retained Earnings	Total Shareholders' Equity
January 1, 2011	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)			-
Comprehensive income (loss)				(123)	13,624	13,501
Dividends					(13,872)	(13,872)
March 31, 2011	19,322,341	137,252	3,165	5,579	46,058	192,054
Share-based payments			2,409			2,409
Exercise of options	248,975	5,043				5,043
Transfer to share capital on exercise of options		272	(272)			-
Comprehensive income (loss)				(2,917)	29,984	27,067
Dividends					(44,933)	(44,933)
December 31, 2011	19,571,316	142,567	5,302	2,662	31,109	181,640
Share-based payments			1,072			1,072
Exercise of options	171,725	3,520				3,520
Transfer to share capital on exercise of options		236	(236)			-
Comprehensive income (loss)				(74)	10,182	10,108
Dividends					(15,332)	(15,332)
March 31, 2012	19,743,041	146,323	6,138	2,588	25,959	181,008

(1) Contributed surplus comprises of share-based payments

(2) Accumulated other comprehensive income comprises of unrealized gains and losses on available-for-sale investments

See accompanying notes to these condensed financial statements

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

As at March 31, 2012 and December 31, 2011 and for the three months ended March 31, 2012 and 2011 (unaudited)

1. NATURE OF BUSINESS AND SEGMENT INFORMATION

Bonterra Energy Corp. (Bonterra or the Company) is a public company listed on the Toronto Stock Exchange and incorporated under the Business Corporations Act (Alberta). The address of the Company's registered office is Suite 901, 1015-4th Street SW, Calgary, Alberta, Canada, T2R 1J4.

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.

The condensed financial statements were authorized for issue by the Company's Board of Directors on May 10, 2012.

2. BASIS OF PREPARATION

a) Statement of Compliance

The Company prepares its financial statements in accordance with International Accounting Standard 34 – Interim Financial Reporting (IAS 34).

The accounting policies and method of computation followed in the preparation of the condensed financial statements are the same as those followed in the preparation of Bonterra's 2011 audited annual financial statements except as described below. These condensed financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the 2011 audited annual financial statements, which have been prepared in accordance with International Financial Reporting Standards.

b) Change in Accounting Estimate

Property, Plant and Equipment
On January 1, 2012, the Company prospectively began depleting oil and gas properties using the unit-of-production method over their proved plus probable developed reserve life (Total Developed Method), a change from the unit–of-production method over their proved developed reserve life (Proved Developed Method). The change of estimate was due to the Total Developed Method providing a better reflection of the estimated service life of the related assets. For the first three months of 2012, the Company recorded less depletion and depreciation of $2,611,000 under the Total Developed Method, compared to what would have been recorded using the Proved Developed Method. The Company believes it is not practical to estimate the effect on depletion and depreciation expense for future periods.

3. INVESTMENT IN RELATED PARTY

The investment consists of 689,682 (December 31, 2011 – 689,682) common shares in Geomark Exploration Ltd. (Geomark), a company with common directors and some common management with Bonterra. The investment in Geomark represents 1.3 percent ownership in the outstanding common shares of Geomark and is recorded at fair market value. The common shares of Geomark trade on the TSX Venture Exchange under the symbol GME.

In addition, Geomark owns 204,633 (December 31, 2011 – 204,633) common shares in Bonterra.

4. PROPERTY, PLANT AND EQUIPMENT

Cost ($ 000s)	**Oil and gas properties**	**Production facilities**	**Furniture, fixtures & other equipment**	**Total property, plant & equipment**
Balance at December 31, 2011	**344,193**	**77,611**	**1,510**	**423,314**
Additions	18,457	4,028	31	22,516
Balance at March 31, 2012	**362,650**	**81,639**	**1,541**	**445,830**

Accumulated Depletion and Depreciation ($ 000s)	**Oil and gas properties**	**Production facilities**	**Furniture, fixtures & other equipment**	**Total property, plant & equipment**
Balance at December 31, 2011	**(116,521)**	**(31,289)**	**(1,143)**	**(148,953)**
Depletion and depreciation	(6,366)	(1,244)	(18)	(7,628)
Other	106	-	-	106
Balance at March 31, 2012	**(122,781)**	**(32,533)**	**(1,161)**	**(156,475)**

Carrying amounts as at: **($ 000s)**				
December 31, 2011	227,672	46,322	367	274,361
March 31, 2012	**239,869**	**49,106**	**380**	**289,355**

Impairment

The impairment of property, plant and equipment assets and any subsequent reversal of such impairment losses are recognized in the statement of comprehensive income. There were no impairment losses recorded in the statement of comprehensive income for the three months ended March 31, 2012 and 2011.

In January 2012, the Company disposed of its Central Alberta Red Water property. The proceeds of disposition was cash of $1,109,000. At the time of disposition, the property had no carrying value resulting in a gain on sale equal to its proceeds.

5. INCOME 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	34,391
Eligible capital expenditures	7	6,258
Canadian oil and gas property expenditures	10	16,355
Canadian development expenditures	30	109,334
Canadian exploration expenditures	100	11,174
SR&ED expenditures	100	1,616
Income tax losses carried forward (1)	100	223,665
		402,793

(1) Federal income tax losses carried forward expire in the following years; 2013 - $1,069,000, 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, 2011 - $27,670,000) remaining of investment tax credits that expire in the following years; 2019 - $3,469,000, 2020 - $3,059,000, 2021 - $4,667,000, 2022 - $3,909,000, 2023 - $3,155,000, 2024 - $1,995,000, 2025 - $2,257,000, 2026 - $ 2,405,000, 2027 - $2,009,000, 2028 - $745,000.

The Company also has $136,296,000 (December 31, 2011 - $137,514,000) of capital loss carry forwards which can only be claimed against taxable capital gains.

6. TRANSACTIONS WITH RELATED PARTIES

As at March 31, 2012, the Company's CEO, Chairman of the Board and major shareholder has loaned the Company $12,000,000 (December 31, 2011 - $12,000,000). The loan bears interest at Canadian chartered bank prime less 5/8th of a percent and has no set repayment terms but is payable on demand. Security under the debenture is over all of the Company's assets and is subordinated to any and all claims in favour of the syndicate of senior lenders providing credit facilities to the Company. Interest paid on this loan during the first three months of 2012 was $72,000 (March 31, 2011 - $70,000).

As at March 31, 2012, Geomark has loaned the Company $20,000,000 (December 31, 2011 – $20,000,000). The loan bears interest at Canadian chartered bank prime less 5/8 of a percent and has no set repayment terms but is payable on demand. Security under the debenture is over all of the Company's assets and is subordinated to any and all claims in favour of the syndicate of senior lenders providing credit facilities to the Company. Interest paid on this loan during the first three months of 2012 was $118,000 (March 31, 2011 - $117,000).

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

The Company received a management fee from Geomark of $67,500 for the three months ended March 31, 2012 (2011 - $67,500) for management services and office administration. This fee has been included in other income. As at March 31, 2012, the Company had an account receivable from Geomark of $36,000 (December 31, 2011 - $74,000).

The Company received a management fee of $15,000 for the three months ended March 31, 2012 (2011 - $15,000) for management services and office administration from Pine Cliff Energy Ltd. (Pine Cliff) a company with some common directors and some common management with Bonterra. This fee has been included in other income. As at March 31, 2012, the Company had an account receivable from Pine Cliff of $2,000 (December 31, 2011 - $4,000).

7. SUBORDINATED PROMISSORY NOTE

As at March 31, 2012, Bonterra has borrowed $15,000,000 (December 31, 2011 - $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 and is payable after thirty days written notice by either party beginning at any time on or after April 4, 2012. 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 three months of 2012 was $112,000 (March 31, 2011 - $111,000).

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.

8. BANK DEBT

As at March 31, 2012 and December 31, 2011, 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, 2012 were $75,543,000 (December 31, 2011 - $69,916,000). Amounts borrowed under the credit facility at March 31, 2012 bear interest at a floating rate based on the applicable Canadian prime rate or Banker's Acceptance rate, plus between 0.75 percent and 3.50 percent, depending on the type of borrowing and the Company's consolidated total funded debt to consolidated cash flow. The terms of the revolving credit facility provided that the loan is revolving to April 26, 2012 and with a maturity date of April 25, 2013 and is subject to annual review. The revolving credit facility has no fixed terms of repayment.

The amount available for borrowing under the credit facilities is reduced by outstanding letters of credit. Letters of credit totaling $400,000 were issued March 31, 2012 (December 31, 2011 - $400,000). 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 on the banking facility:

- 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, 2012, the Company is in compliance with all covenants.

Effective April 20, 2012, the Company renewed its bank facility under similar terms and conditions with the exception of extending the revolving period to April 25, 2013, the maturity date to April 25, 2014, and increased its syndicated revolving credit facility from $100,000,000 to $120,000,000. The total syndicated and non-syndicated credit facilities of $140,000,000 bear interest at a floating rate based on applicable

Canadian prime rate or Banker's Acceptance rate, plus between 0.75 percent and 3.50 percent, depending on the type of borrowing and the Company's consolidated total funded debt to consolidated cash flow.

9. SHAREHOLDERS' EQUITY

Authorized

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

	March 31, 2012	
Issued and fully paid – common shares	**Number**	**Amount ($ 000s)**
Balance, beginning of year	**19,571,316**	**142,567**
Issued pursuant to Company share option plan	**171,725**	**3,520**
Transfer from contributed surplus to share capital		**236**
Balance, end of period	**19,743,041**	**146,323**

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 months ended March 31 are as follows:

	2012	2011
Basic shares outstanding	**19,662,450**	19,266,215
Dilutive effect of share options [1]	**134,024**	412,483
Diluted shares outstanding	**19,796,474**	19,678,698

[1] The Company did not include 605,000 share options for the three months ended March 31, 2012 (March 31, 2011 – 617,000) in the dilutive effect of share options calculation, as these share options were anti-dilutive.

For the three months ended March 31, 2012, the Company declared and paid dividends of $15,332,000 ($0.78 per share) (March 31, 2011 - $13,872,000 ($0.72 per share)).

The Company provides an equity settled option plan for its directors, officers, employees and consultants. Under the plan, the Company may grant options for up to 1,974,304 (December 31, 2011 – 1,957,131) 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, 2012 and changes during the three month period ended is presented below:

	Number of options	**Weighted average exercise price**
Balance, beginning of year	1,468,225	$ 46.63
Options granted	93,000	52.58
Options exercised	(171,725)	20.50
Options forfeited	(16,000)	58.01
At March 31, 2012	1,373,500	$ 50.17

The following table summarizes information about options outstanding at March 31, 2012:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number outstanding at March 31, 2012	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at March 31, 2012	Weighted-average exercise price
$ 20.50	166,500	0.7 years	$ 20.50	166,500	$ 20.50
48.00 – 53.00	601,500	2.8 years	50.50	6,000	50.11
54.00 – 59.00	605,500	2.9 years	57.99	40,000	58.67
$ 20.50 – $ 59.00	1,373,500	2.6 years	$ 50.17	212,500	$ 28.52

The Company records compensation expense over the vesting period, which ranges between one to three years, based on the fair value of options granted to employees, directors and consultants. In 2012, the Company granted 93,000 stock options with an estimated fair value of $576,000 or $6.20 per option using the Black-Scholes option pricing model with the following key assumptions:

	March 31, 2012
Weighted-average risk free interest rate (%)[1]	**1.20**
Expected life (years)	**2.05**
Weighted-average volatility (%) [2]	**30.90**
Forfeiture rate (%)	**0.00**
Weighted-average dividend yield (%)	**5.94**

(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.

Weighted average share price at the date of exercise was $53.14 (December 31, 2011 - $53.38).

10. OIL AND GAS SALES, NET OF ROYALTIES

($ 000s)	**March 31, 2012**	March 31, 2011
Oil and gas sales	**36,893**	38,170
Less:		
Crown royalties	**(3,146)**	(2,353)
Freehold, gross overriding and other royalties	**(1,450)**	(1,011)
Oil and gas sales, net of royalties	**32,297**	34,806

11. OTHER INCOME

($ 000s)	**March 31, 2012**	March 31, 2011
Investment income	**6**	1
Administrative income	**82**	82
Gain on sale of property	**1,109**	4
Gain on sale of investments	**445**	1,854
Other income	**1,642**	1,941

12. SUBSEQUENT EVENT – DIVIDENDS

Subsequent to March 31, 2012, the Company has declared the following dividends:

Date declared	Record date	$ per share	Date payable
April 3, 2012	April 16, 2012	0.26	April 30, 2012
May 3, 2012	May 15, 2012	0.26	May 31, 2012

Board of Directors

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

Officers and Senior Management

G.F. Fink – Chairman of the Board and Chief Executive Officer
B.A. Curtis – Vice President, Business Development
R.M. Jarock – President and Chief Operating Officer
R.D. Thompson – Chief Financial Officer and Secretary

Registrar & Transfer Agent

Olympia Trust Company, Calgary, Alberta

Auditors

Deloitte & Touche LLP, Calgary, Alberta

Solicitors

Borden Ladner Gervais LLP, Calgary, Alberta

Bankers

CIBC, Calgary, Alberta
Alberta Treasury Branch, Calgary, Alberta

Stock Listing

The Toronto Stock Exchange
Trading Symbol: BNE

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