Q1 For the Three Months ended March 31, 2013

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

BONTERRA ENERGY REPORTS FIRST QUARTER 2013 FINANCIAL AND OPERATING RESULTS

HIGHLIGHTS

As at and for the periods ended ($ 000s except for $ per share)	**March 31, 2013**	December 31, 2012	March 31, 2012
FINANCIAL			
Revenue – realized oil and gas sales	**66,468**	39,624	36,893
Funds flow [1]	**40,775**	19,796	22,307
Per share – basic	**1.47**	1.00	1.13
Per share – diluted	**1.47**	1.00	1.13
Payout ratio	**53%**	78%	69%
Funds flow [2]	**44,594**	19,796	22,307
Per share – basic	**1.61**	1.00	1.13
Per share – diluted	**1.60**	1.00	1.13
Payout ratio	**49%**	78%	69%
Cash flow from operations	**40,726**	21,460	21,698
Per share – basic	**1.47**	1.08	1.10
Per share – diluted	**1.46**	1.08	1.10
Payout ratio	**53%**	72%	71%
Cash dividends per share	**0.80**	0.78	0.78
Net earnings	**12,695**	6,082	10,182
Per share – basic	**0.46**	0.31	0.52
Per share – diluted	**0.46**	0.31	0.51
Capital expenditures and acquisitions, net of dispositions	**39,506** [3]	24,069	21,413
Total assets	**1,016,594**	419,933	371,757
Working capital deficiency	**31,519**	29,876	57,889
Long-term debt	**189,509**	166,808	75,543
Shareholders' equity	**658,062**	163,277	181,008
OPERATIONS			
Oil (barrels per day)	**7,459**	4,400	3,975
NGLs (barrels per day)	**732**	595	419
Natural gas (MCF per day)	**22,176**	16,009	12,260
Total barrels of oil equivalent per day (BOE)[1]	**11,887**	7,663	6,438
Total barrels of oil equivalent per day (BOE)[2]	**13,122**	7,663	6,438

[1] Quarterly figures for Q1 2013 include the results of Spartan Oil Corp. (Spartan) for the period of January 25, 2013 to March 31, 2013. Production includes 65 days for Spartan and 90 days for Bonterra.
[2] Quarterly figures for Q1 2013 include the results of Spartan for the period of January 1, 2013 to March 31, 2013. Production includes 90 days for Spartan and 90 days for Bonterra.
[3] Includes the Spartan acquisition that closed on January 25, 2013 that included $10,000,000 of acquired cash that reduced capital expenditures from $49,506,000.

REPORT TO SHAREHOLDERS

Bonterra Energy Corp. (Bonterra or the Company) is pleased to announce its financial and operational results for the three months ended March 31, 2013.

Highlights

- Successfully integrated the Spartan asset acquisition that closed on January 25, 2013;
- Generated record funds flow of $1.47 per share, an increase of 47 percent quarter over quarter and an increase of 30 percent when compared to the same period in 2012;
- Recorded a cash netback of $37.76 in Q1 2013, an increase of 38 percent over the previous quarter;
- Increased average daily production to a record level of 11,887 BOE per day, an increase of 55 percent quarter over quarter and an increase of 85 percent over Q1 2012. If Spartan had been included from January 1, 2013 instead of January 25, 2013, average daily production for the first quarter would have been 13,122 BOE per day and funds flow would have been $1.61 per share;
- Current production levels exceed 13,000 BOE per day and Bonterra is well on track to meet its full year guidance of 12,000 BOE per day;
- Substantially reduced operating costs on a BOE basis to $12.92 per BOE, a decrease of 36 percent quarter over quarter and 16 percent when compared with Q1 2012;
- Executed a capital development program of $49.5 million which included drilling 15 gross (14.8 net) Pembina and Willesden Green Cardium operated wells, two (0.3 net) non-operated wells, facilities and gathering systems;
- Paid out $0.80 per share in dividends during Q1 2013 representing a payout ratio of 53 percent of funds flow which included an increase to the current level of $0.28 per share beginning with the dividend paid in March, 2013; and
- Reduced its net debt to cash flow ratio at March 31, 2013 to 1.36 to 1 times even though the Company spent approximately 50 percent of its capital expenditures in Q1 2013. This ratio should be lower after Q2 2013 as there will be little capital spent during that quarter.

Operations

The first quarter of 2013 was exceptionally busy for the Company as it integrated the Spartan assets into its operations. The Spartan assets are a good geographical and operational fit with the Company's Cardium focused asset base. In addition, the Company spent approximately 50 percent of its $90 million capital budget during the first quarter on its capital development program that led to record production levels and enhanced operational performance. The Company was focused on front loading its capital program and ran three rigs throughout the first quarter in order to minimize the effects of spring break-up and maintain strong production through the second and third quarter of the year.

Due to this active first quarter, the Company's current production levels are exceeding 13,000 BOE per day. As previously reported, the Company will actively manage its corporate decline over the course of 2013 and reiterates its full year production guidance of 12,000 BOE per day. Bonterra's focus on managing the corporate decline will allow it to maintain its balance sheet strength and to continue to pay out a large monthly dividend.

The Company has worked extensively on improving its operations. Bonterra drilled the first horizontal well in the Cardium zone in 2009 and has since refined its horizontal drill program. In 2012, the Company's average cost to drill, complete and equip was approximately $3.2 million per well. In Q1 2013, Bonterra was able to substantially reduce average well costs to approximately $2.5 million per well.

In Q1 2013, the Company drilled its first horizontal well in its 98.5 percent owned Carnwood unit recording its best well results to date in the Pembina field with a seven day initial production rate of approximately 1,000 barrels of oil per day and 1,200 BOE per day. The well is currently pump limited at a volume of 250 barrels and its 90 day initial production rate is approximately 250 barrels of oil per day and 270 BOE per day. Bonterra plans to increase the pump capacity in Q2 2013. The Company has a large position in the Carnwood area of 24.5 sections representing approximately 98 horizontal locations at four wells per section. The Company is also investigating increased well density on its Cardium lands. This included an eight well per section pilot project in the Cynthia area which resulted in extremely encouraging 30 Day initial production rates. Bonterra is excited by its continued progress in reducing costs and increasing well results and expects to drill an additional 15 gross (14.9 net) operated wells over the course of 2013.

Financial

Oil and natural gas prices exhibited some strength quarter over quarter and the Company's average realized price for crude oil was $84.20 per barrel in Q1 2013, an increase of seven percent. The Canadian oil and gas industry was negatively impacted in 2012 by a large Canadian crude oil differential between WTI and the price eventually realized by the Company. This fluctuated substantially and ranged between $5.00 and $25.00 per barrel. However, in Q4 2012 the differential began to narrow and in Q1 2013 the differential tightened to an average of approximately $6.00.

As a result of this improved price environment and significant production volume increases, revenue and cash flow from operations increased 68 percent and 90 percent, respectively, over Q4 2012 levels. Due to its enhanced operations and the increased production volumes, Bonterra's Board of Directors and management elected to increase the monthly dividend to its current level of $0.28 per share beginning with the dividend paid out to shareholders in March. This represents a payout ratio of 53 percent of funds flow which is within the Company's guidance of 50 to 65 percent.

The netback of $37.76 per BOE is below the Company's 2013 guidance of approximately $43.00 per BOE. This deficiency was anticipated for Q1 2013 as natural gas accounted for 31 percent of production. This ratio will be substantially reduced for the balance of the year as most recent wells drilled will have a liquids/natural gas ratio of approximately 80/20 percent. In Q1 2013, there was only a small amount of 80/20 percent ratio production from wells drilled in that quarter.

Bonterra intends to continue focusing on maintaining balance sheet strength and conservative financial management. The Company believes it is vital to maintain its net debt to cash flow ratio in the 1 to 1 to 1.5 to 1 times range. At March 31, 2013, the Company was well within its guidance at 1.36 to 1 times and the Company will continue to closely monitor this ratio by managing its cash flow, capital expenditure ranges and dividend payment over the year to ensure that it remains within its targeted guidance for the full year 2013. The ratio in the first quarter is generally higher than any other quarter as capital expenditures are typically higher within that period.

Outlook

Bonterra is pleased with its continued controlled growth and its sustainability. The Company remains focused on improving production rates, sustaining a consistent pace of development and increasing project economics and it will continue to work diligently on maximizing value for shareholders.

George F. Fink
Chief Executive Officer and Chairman of the Board

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following report dated May 13, 2013 is a review of the operations and current financial position for the three months ended March 31, 2013 for Bonterra Energy Corp. (Bonterra or the Company) and should be read in conjunction with the unaudited condensed consolidated financial statements and the audited financial statements including the notes related thereto for the fiscal year ended December 31, 2012 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", "cash netback" and "net debt" 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 used 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.

Frequently Recurring Terms

Bonterra uses the following frequently recurring terms in this MD&A: "bbl" refers to barrel, "NGL" refers to Natural gas liquids, "MCF" refers to thousand cubic feet and "BOE" refers to barrels of oil equivalent. Disclosure provided herein in respect of a BOE may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 MCF: 1 bbl is based on an energy conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Numerical Amounts

The reporting and the functional currency of the Company is the Canadian dollar.

Quarterly Comparisons

As at and for the periods ended ($ 000s except $ per share)	2013 Q1[(1)]	2012 Q4	2012 Q3	2012 Q2	2012 Q1
Financial					
Revenue – oil and gas sales	**66,468**	39,624	35,204	31,049	36,893
Cash flow from operations	**40,726**	21,460	16,440	14,727	21,698
Per share – basic	**1.47**	1.08	0.83	0.74	1.10
Per share – diluted	**1.46**	1.08	0.83	0.74	1.10
Payout ratio	**53%**	72%	94%	105%	71%
Cash dividends per share	**0.80**	0.78	0.78	0.78	0.78
Net earnings	**12,695**	6,082	7,746	9,201	10,182
Per share – basic	**0.46**	0.31	0.39	0.47	0.52
Per share – diluted	**0.46**	0.31	0.39	0.46	0.51
Capital expenditures and acquisitions, net of dispositions	**39,506** [(2)]	24,069	27,360	25,288 [(3)]	21,413
Total assets	**1,016,594**	419,933	412,812	393,772	371,757
Working capital deficiency	**31,519**	29,876	49,808	42,082	57,889
Long-term debt	**189,509**	166,808	128,779	114,747	75,543
Shareholders' equity	**658,062**	163,277	169,839	176,292	181,008
Operations					
Oil (barrels per day)	**7,459**	4,400	4,108	3,650	3,975
NGLs (barrels per day)	**732**	595	461	428	419
Natural gas (MCF per day)	**22,176**	16,009	12,583	11,753	12,260
Total BOE per day	**11,887**	7,663	6,666	6,037	6,438

(1) Quarterly figures for Q1 2013 include the results of Spartan Oil Corp. (Spartan), for the period of January 25, 2013 to March 31, 2013. Production includes 65 days for Spartan and 90 days for Bonterra.
(2) Includes the Spartan acquisition that closed on January 25, 2013 that included $10,000,000 of acquired cash that reduced capital expenditures from $49,506,000.
(3) Includes an asset acquisition that closed on June 7, 2012 for $17,108,000

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

Business Environment and Sensitivities

Bonterra's financial results are significantly influenced by fluctuations in commodity prices, including price differentials. The following table depicts selective market benchmark prices and foreign exchange rates in the last eight quarters to assist in understanding volatility in prices and foreign exchange rates that have impacted Bonterra's financial and operating performance.

	Q1-2013	Q4 -2012	Q3 -2012	Q2 -2012	Q1-2012	Q4-2011	Q3-2011	Q2-2011
Crude oil								
WTI (U.S.$/bbl)	94.37	88.18	92.22	93.49	102.93	94.06	89.76	102.56
Bonterra average realized price (Cdn$/bbl)	84.20	78.58	80.54	80.93	88.48	96.25	88.21	101.30
Natural gas								
AECO (Cdn$/mcf)	3.18	3.20	2.31	1.89	2.15	3.19	3.65	3.86
Bonterra average realized price (Cdn$/mcf)	3.21	3.43	2.41	1.96	2.32	3.34	3.91	4.15
Foreign exchange								
Cdn$/U.S.$	1.0089	0.9913	0.9948	1.0102	1.0012	1.0231	0.9802	0.9677

During 2012, the price differentials between Bonterra's average realized price and WTI substantially increased, due in most part to reduced demand because of refinery outages and seasonal turnarounds and the inability to get oil to markets because of pipeline capacity constraints and quality adjustments. However, in Q4 2012 the differential began to narrow and in Q1 2013 the differential tightened to an average of approximately $6.00. There remains potential for the price differentials to remain volatile in future periods.

The following chart shows the Company's sensitivity to key commodity price variables. The sensitivity calculations are performed independently showing the effect of the change of one variable; with all other variables being held constant.

Annualized sensitivity analysis on cash flow, as estimated for 2013[1]

Impact on cash flow	Change ($)	$000s	$ per share[2]
Realized crude oil price ($/bbl)	1.00	2,654	0.09
Realized natural gas price ($/mcf)	0.10	658	0.02

[1] This analysis uses current royalty rates, annualized estimated average production of 12,000 BOE per day and no changes in working capital
[2] Based on annualized basic weighted average shares outstanding of 29,916,634

Business Overview, Strategy and Key Performance Drivers

On January 25, 2013, Bonterra acquired 100 percent of the issued and outstanding common shares of Spartan Oil Corp. (Spartan) pursuant to an arrangement agreement in which Spartan became a wholly owned subsidiary. Spartan was a public oil and gas company with properties in Alberta and Saskatchewan. Consideration for Spartan shares was 0.1169 voting common shares of Bonterra, which amounted to the issuance of 10,711,405 Bonterra shares valued at $502,258,000. The Spartan acquisition adds to Bonterra's sustainable, high-netback, production profile, company-owned infrastructure and its high-quality, multi-year drilling inventory that is in excess of 10 years (assuming four wells per section). On March 1, 2013 Spartan amalgamated with Bonterra.

If Spartan had been acquired on January 1, 2013 those assets for the first quarter of 2013 would have added total revenue (primarily oil and gas sales, net of royalties) of $29,633,000 and production of 5,206 BOE per day. The combined production for the Company for the full quarter was 13,122 BOE per day. In addition Spartan assets would have added operating and administrative expenses of $5,774,000 for the three month period ended March 31, 2013. Producing assets acquired in the Spartan acquisition are approximately 80% crude oil and natural gas liquids.

Bonterra spent $49,506,000 on its capital program, which is approximately half of the Company's anticipated capital program for 2013. The Company accelerated its capital drilling program in Q1 2013 as there is virtually no drilling or other activities in the second quarter because of spring break-up that temporarily prevents the Company from continuing its horizontal development program.

Bonterra's successful operations are dependent upon several factors, including but not limited to, the price of energy commodity products, efficiently managing capital spending, its ability to maintain desired levels of production, control over its infrastructure, its efficiency in developing and operating properties and its ability to control costs. The Company's key measures of performance with respect to these drivers include, but are not limited to, average production per day, average realized prices and average operating costs per unit of production. Disclosure of these key performance measures can be found in the MD&A and/or previous interim or annual MD&A disclosures.

Drilling

($000s)	Three months ended **March 31, 2013** Gross[1]	**Net[2]**	December 31, 2012 Gross[1]	Net[2]	March 31, 2012 Gross[1]	Net[2]
Crude oil horizontal-operated	**15**	**14.8**	6	4.6	5	5.0
Crude oil horizontal- non-operated	**2**	**0.3**	6	1.6	2	0.3
Total	**17**	**15.1**	12	6.2	7	5.3
Success rate		**100%**		100%		100%

[1] "Gross" wells means the number of wells in which Bonterra has a working interest.
[2] "Net" wells means the aggregate number of wells obtained by multiplying each gross well by Bonterra's percentage of working interest.

During the first quarter of 2013, the Company placed three gross (3.0 net) wells on production that were drilled in the later part of 2012, drilled 15 gross (14.8 net) wells, of which seven gross (7.0 net) were placed on production. Of the remaining eight (7.8 net) wells, six will be placed on production in the second quarter and the remaining two will be placed on production after spring break-up. Two gross (0.3 net) non-operated wells were drilled and placed on production during 2013.

In addition, prior to the acquisition, Spartan drilled six (5.8 net) wells in late 2012 and 2013, all of which were placed on production in the first quarter of 2013. Spartan also had four (1.0 net) non-operated wells that were drilled prior to the acquisition and placed on production in the first quarter of 2013.

Production

	Three months ended **March 31, 2013**	December 31, 2012	March 31, 2012
Crude oil (barrels per day)	**7,459**	4,400	3,975
NGLs (barrels per day)	**732**	595	419
Natural gas (MCF per day)	**22,176**	16,009	12,260
Average BOE per day[1]	**11,887**	7,663	6,438

[1] In Q1 2013, average daily production included 90 days of Bonterra production and 65 days of Spartan production.

Production volumes during 2013 increased to 11,887 BOE per day compared to 6,438 BOE per day during the same period in 2012. The increase in production is primarily due to the Spartan acquisition. The Company's accelerated drilling program in the second half of 2012 and into the first quarter of 2013, in the Pembina and Willesden Green areas, also contributed to the increase in production.

Production volumes for Q1 2013 increased by 55 percent compared to Q4 2012, which was primarily due to the Spartan acquisition. The Company is currently producing over 13,000 BOE per day, which includes substantial flush production from a large number of new wells drilled in Q1 2013. The Company plans to average 12,000 BOE per day for the year.

Cash Netback

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

	Three months ended		
$ per BOE	**March 31, 2013**	December 31, 2012	March 31, 2012
Production volumes (BOE)	**1,069,798**	705,001	585,829
Gross production revenue	**$62.13**	$56.20	$62.98
Royalties	**(6.36)**	(4.90)	(7.85)
Field operating costs	**(12.92)**	(19.02)	(15.46)
Field netback	**42.85**	32.28	39.67
General and administrative[1]	**(3.25)**	(2.31)	(2.34)
Interest and other	**(1.84)**	(2.51)	(1.35)
Cash netback	**$37.76**	$27.46	$35.98

[1] Includes non-recurring expenses of $0.92 per BOE in Q1 2013 due to the Spartan acquisition.

Cash Netbacks have increased in Q1 2013 compared to Q1 2012 primarily due to lower operating costs. Quarter over quarter cash netbacks increased due to an increase in realized commodity prices and lower operating costs.

Oil and Gas sales

	Three months ended		
($ 000s)	**March 31, 2013**	December 31, 2012	March 31, 2012
Revenue – oil and gas sales	**66,468**	39,624	36,893
Average Realized Prices ($):			
Crude oil (per barrel)	**84.20**	78.58	88.48
NGLs (per barrel)	**53.75**	50.41	60.29
Natural gas (per MCF)	**3.21**	3.43	2.32
Average (per BOE)	**62.13**	56.20	62.98

Revenue from oil and gas sales increased by $29,575,000 in 2013 or 80 percent compared to Q1 2012. This increase was primarily due to an 85 percent increase in production due to the Spartan acquisition and the successful results of Bonterra's drilling program. Average realized price per BOE was comparable to the same period a year ago.

The quarter over quarter increase in oil and gas revenues of 68 percent or $26,844,000, was due to increased production from the Spartan acquisition and Bonterra's drilling program, along with an increase in the average realized price per BOE.

The Company's product split on a revenue basis for 2013 is approximately 90 percent weighted towards crude oil and NGLs. This ratio will likely remain similar or increase as the Company continues to develop its Pembina and Willesden Green Cardium (mainly oil) properties.

Royalties

($ 000s)	March 31, 2013	December 31, 2012	March 31, 2012
	Three months ended		
Crown royalties	**3,984**	2,436	3,146
Freehold, gross overriding and other royalties	**2,820**	1,017	1,450
Total royalties	**6,804**	3,453	4,596
Crown royalties - percentage of revenue	**6.0**	6.1	8.5
Freehold, gross overriding and other royalties - percentage of revenue	**4.2**	2.6	3.9
Royalties – percentage of revenue	**10.2**	8.7	12.5
Royalties $ per BOE	**6.36**	4.90	7.85

Royalties paid by the Company consist of Crown royalties paid to the Provinces of Alberta, Saskatchewan and British Columbia. The Company's average Crown royalty rate is approximately 6.0 percent for 2013 compared to 8.5 percent for the comparable period in 2012. The decrease is primarily due to new horizontal Cardium wells that are still eligible for the initial five percent royalty rate until accumulated production thresholds are met or the expiry of time allowed to reach the threshold levels. A significant portion of those initial five percent royalty rate wells are from wells recently drilled in the second half of 2012 and in the first quarter of 2013.

Non-crown royalties increased for Q1 2013 compared to Q1 2012 primarily due to additional oil and gas revenue from wells subject to non-crown royalties from the Spartan acquisition and recent non-operated wells drilled in the Tomahawk area. The percent increase in non-crown royalties' quarter over quarter is primarily due to increased production from new wells due from the Spartan acquisition and increased production from freehold wells brought back on production in Q1 2013 that were shut-in during the fourth quarter of 2012.

Production Costs

($ 000s except $ per BOE)	March 31, 2013	December 31, 2012	March 31, 2012
	Three months ended		
Production costs	**13,826**	13,407	9,056
$ per BOE	**12.92**	19.02	15.46

Total production costs for Q1 2013 increased 53 percent from the comparable period in 2012. However, on a BOE basis, production costs have decreased by 16 percent.

The decrease is primarily due to production from the recently drilled horizontal wells which have lower operating costs on a BOE basis, due to higher production volumes over the same fixed costs versus vertical wells. In addition, the Spartan assets have access to a wholly owned gas plant facility (also acquired in the Spartan purchase) that has lower compression, gathering and processing costs. These factors have significantly reduced combined operating costs on a BOE basis. The facility will also continue to help increase gas processing capacity which should alleviate production apportionments and reduce production costs on a per BOE basis.

Quarter over quarter operating costs on a BOE basis have decreased 32 percent primarily due to the higher production volumes from recently drilled wells and to a onetime third party equalization charge of approximately $1,650,000 in the fourth quarter of 2012 that substantially increased the Q4 2012 costs.

Other Income

($ 000s)	**March 31, 2013**	Three months ended December 31, 2012	March 31, 2012
Gain on sale of property	-	-	1,109
Realized gain on investments	115	943	445
Investment income	73	39	6
Administrative income	15	37	82
	203	1,019	1,642

During 2013, the Company disposed of a portion of its investments for gross proceeds of $391,000 (March 31, 2012 - $1,231,000). In the fourth quarter of 2012, the realized gain on investments was primarily due to a realized gain of $631,000 on the share exchange between Pine Cliff Energy Ltd. (Pine Cliff) and Geomark Exploration Ltd. (Geomark).

The market value of the investments held by the Company is $5,173,000 at March 31, 2013 (December 31, 2012 - $5,046,000). The increase in carrying value is mainly due to increased market value in the remaining investments, partially offset by the investment sold in the period.

During 2012, the Company disposed of a portion of its Central Alberta Redwater property for cash proceeds of $1,109,000, equal to the accounting gain, as this property was recorded with no carrying value.

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

General and Administration (G&A) Expense

($ 000s except $ per BOE)	**March 31, 2013**	Three months ended December 31, 2012	March 31, 2012
Employee compensation expense	**1,387**	875	1,062
Office and administration expense (recurring)	**1,103**	755	311
	2,490	1,630	1,373
Office and administration expense (non-recurring)(1)	**992**	-	-
Total G&A expense	**3,482**	1,630	1,373
$ per BOE (recurring)	**2.33**	2.31	2.34
$ per BOE (total)	**3.25**	2.31	2.34

(1) Non-recurring office and administration costs relates to the acquisition of Spartan.

Total G&A expense increased to $3,482,000 for the three months ended March 31, 2013 from $1,373,000 for the comparable period in 2012.

The increase in employee compensation expense of $325,000 for 2013 compared to a year ago (and $512,000 quarter over quarter) are primarily due to increased number of staff and an increase in accrued bonuses, due to higher 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 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.

The increase in recurring office and administration expense for Q1 2013 compared to Q1 2012, related to an increase in consulting fees, computer software costs and increased office rent due to the Spartan acquisition. The increase quarter over quarter relates primarily to the allowance for doubtful accounts, consulting fees and increased rent.

Finance Costs

	Three months ended		
	March 31,	December 31,	March 31,
($ 000s except $ per BOE)	**2013**	2012	2012
Interest on long-term debt	**1,603**	1,616	578
Other interest	**181**	225	302
Interest expense	**1,784**	1,841	880
$ per BOE	**1.67**	2.61	1.50
Unwinding of the discounted value of decommissioning liabilities	**242**	224	218
Total finance costs	**2,026**	2,065	1,098

Interest on long-term debt increased $1,025,000 in 2013 compared to the same period a year ago as the Company increased the bank debt by $113,966,000 from the end of the first quarter of 2012. The increase was due to a $17,108,000 Willesden Green asset purchase, $20,000,000 repayment of a short-term related party loan, increased spending in capital drilling program in the prior year and reduced cash flows as a result of lower commodity prices.

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.

Based on volatilities in the global 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 the next twelve month period. A one percent increase (decrease) in the Canadian prime rate would decrease (increase) both annual net earnings and comprehensive income by $1,511,000.

Share-based Payments

	Three months ended		
	March 31,	December 31,	March 31,
($ 000s)	**2013**	2012	2012
	1,192	1,264	1,072

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 $3,082,000 will be recorded for the remainder 2013, $735,000 for 2014, $222,000 for 2015 and $9,000 for 2016. For more information about options issued and outstanding, refer to Note 12 of the March 31, 2013 condensed financial statements.

Depletion and Depreciation, Exploration and Evaluation and Goodwill

	Three months ended		
	March 31,	December 31,	March 31,
($ 000s)	**2013**	2012	2012
Depletion and depreciation	**19,561**	10,585	7,628
Exploration and evalaution expense	**276**	-	-

Provision for depletion and depreciation increased by $11,933,000 over Q1 2012 and $8,976,000 over Q4 2012. The increase in depletion and depreciation was mainly the result of increased production volumes and increased property, plant and equipment costs from the Spartan acquisition.

Exploration and evaluation expense related to expired leases.

With the Spartan business combination, Bonterra also recorded goodwill. Goodwill has been allocated to the primary cash generating unit, the Pembina Cardium and Willesden Green assets in Alberta, Canada.

There were no impairment provisions recorded for the three month period ended March 31, 2013.

Taxes

The Company recorded a deferred tax expense of $6,516,000 for 2013 (March 31, 2012 - $3,530,000). The deferred tax expense increase in 2013 compared to 2012 is primarily related to increased earnings before income taxes.

The Company has $631,637,000 of tax pools, which may be used to reduce taxable income in future years, limited to various rates of utilization. The Company also has $27,670,000 (December 31, 2012 - $27,670,000) remaining of investment tax credits that expire between the years 2019 to 2028. In addition, the Company has $135,273,000 (December 31, 2012 - $135,502,000) of capital loss carry forwards which can only be claimed against taxable capital gains. For additional information regarding income taxes, see Note 8 of the March 31, 2013 condensed financial statements.

Net Earnings

	Three months ended		
($ 000s except $ per share)	**March 31, 2013**	December 31, 2012	March 31, 2012
Net earnings	**12,695**	6,082	10,182
$ per share – basic	**0.46**	0.31	0.52
$ per share – diluted	**0.46**	0.31	0.51

Net earnings increased in 2013 by $2,513,000 or 25 percent from the comparable period of 2012. Increased net earnings resulted primarily from increased oil and gas sales. This increase was partially offset by an increase in depletion and depreciation, deferred tax expense, production costs and the Spartan acquisition costs.

The increase in net earnings for Q1 2013 compared to Q4 2012 resulted from increased oil and gas sales. This was partially offset by an increase in depletion and depreciation, deferred tax expense and the Spartan acquisition costs.

Other Comprehensive Income

Other comprehensive income for 2013 consists of an unrealized gain before tax on investments (including investments in a related party) of $518,000 relating to an increase in the investments' fair value (March 31, 2012 – unrealized gain of $360,000). The Company also disposed of a portion of these investments in 2013 for a realized gain before tax of $115,000 (March 31, 2012 - $445,000). Realized gains decrease other comprehensive income as these 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

($ 000s except $ per share)	Three months ended **March 31, 2013**	December 31, 2012	March 31, 2012
Cash flow from operations	**40,726**	21,460	21,698
$ per share – basic	**1.47**	1.08	1.10
$ per share – diluted	**1.46**	1.08	1.10

In 2013, cash flow from operations increased by $19,028,000 compared to the same period a year ago. This was primarily due to increased production and higher field net backs as a result of lower combined operating costs. The quarter over quarter increase of $19,266,000, or 90 percent, was due primarily to increased production, an increase in the average realized commodity price and a decrease in operating costs.

Related Party Transactions

Bonterra holds 1,034,523 (December 31, 2012 – 1,034,523) common shares in Pine Cliff which represents 0.7 percent ownership in Pine Cliff's outstanding common shares. Pine Cliff's common shares have a fair market value as of March 31, 2013 of $900,000 (December 31, 2012 - $910,000). Pine Cliff paid a management fee to the Company of $15,000 (March 31, 2012 - $82,000 from Pine Cliff and its subsidiary Geomark). 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. As at March 31, 2013, the Company had an account receivable from Pine Cliff of $2,000 (December 31, 2012 – $45,000).

On November 9, 2012, Bonterra repaid the $20,000,000 loan with Geomark. Interest paid on this loan during the three months ended March 31, 2012 was $118,000.

As at March 31, 2013, the Company's CEO, Chairman of the Board and major shareholder has loaned the Company $12,000,000 (December 31, 2012 - $12,000,000). The loan bears interest at Canadian chartered bank prime less $5/8^{th}$ 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 2013 was $70,000 (March 31, 2012 - $72,000). 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

Working Capital Deficiency

($ 000s)	**March 31, 2013**	December 31, 2012	March 31, 2012
Working capital deficiency	31,519	29,876	57,889
Long-term bank debt	189,509	166,808	75,543
Net debt	221,028	196,684	133,432
Shareholders' equity	658,062	163,277	181,008
Total	879,090	359,961	314,440

Net Debt and Working Capital

Net debt is a combination of long-term bank debt and working capital. The increase in net debt from $133,432,000 at March 31, 2012 to $221,029,000 at March 31, 2013 is primarily attributable to the substantial decrease in commodity prices in 2012, leading to lower field net backs and reduced cash flow from operations. In addition, the Company increased capital spending in the second half of 2012, while at the same time maintaining the dividends paid to shareholders. With the acquisition of Spartan, the Company anticipates a reduction in debt levels with the increased cash flow from the combined operations.

Working capital is calculated as current liabilities less current assets. The Company finances its working capital deficiency using cash flow from operations, its long-term bank facility, share issuances, option exercises and sale of investments.

Effective April 4, 2013, the Company increased its Subordinated Promissory Note by an additional $10,000,000, for a total of $25,000,000 under the same terms and conditions. For more information see Note 10 of the March 31, 2013 condensed financial statements.

With the Spartan transaction, the Company inherited a derivative financial instrument entered into by Spartan to manage its exposure to fluctuations in commodity prices. The financial derivative is outstanding for the period January 1, 2013, to December 31, 2013 for a total 273,750 barrels of oil at a fixed price of $90 Cdn per barrel. It is estimated that a 10% change in the forward crude oil prices used to calculate the fair value of the derivative as at March 31, 2013 for the remainder of the year would result in a $1,108,000 change in net earnings for the three month period ended March 31, 2013.

Capital Expenditures

During the three month period ended March 31, 2013, the Company incurred capital costs of $49,506,000 (March 31, 2012 - $22,413,000) net of proceeds on disposal of property, plant and equipment. The costs relate primarily to the drilling of 15 gross (14.8 net) Pembina and Willesden Green Cardium operated horizontal wells and two (0.3 net) non-operated wells, facilities and gathering systems.

Long-term Debt

Long-term debt represents the outstanding draws from the Company's credit facilities as described in the notes to the Company's annual financial statements. As of March 31, 2013, the Company has bank facilities consisting of a $220,000,000 (December 31, 2012 - $160,000,000) syndicated revolving credit facility and a $30,000,000 (December 31, 2012 - $20,000,000) non-syndicated revolving credit facility. Amounts drawn under these facilities at March 31, 2013 totaled $189,509,000 (December 31, 2012 - $166,808,000). The interest rates on the outstanding debt as of March 31, 2013 were 4.7 percent and 3.7 percent on the Company's Canadian prime rate loan and Banker's Acceptances, respectively. The loan is revolving to April 24, 2014 and with a maturity date of April 25, 2015 and is subject to annual review. The revolving credit facilities have no fixed terms of repayment.

Advances drawn under the credit facilities are secured by a fixed and floating charge debenture over the assets of the Company. In the event the credit facilities are not extended or renewed, amounts drawn under the facility would be due and payable on the maturity date. The size of the committed credit facilities is based primarily on the value of the Company's producing petroleum and natural gas assets and related tangible assets as determined by the lenders. For more information see Note 11 of the March 31, 2013 condensed financial statements.

Shareholder's Equity

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

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.

Issued and fully paid – Common Shares	Number	Amount ($ 000s)
Balance, December 31, 2012	**19,909,541**	**149,877**
Spartan Acquisition	**10,711,405**	**502,258**
Balance, end of March 31, 2013	**30,620,946**	**652,135**

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 3,062,095 (December 31, 2012 – 1,990,954) 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. For additional information regarding options outstanding, see Note 12 of the March 31, 2013 condensed financial statements.

Dividend Policy

For the three month period ended March 31, 2013, Bonterra paid dividends of $21,712,000 ($0.80 per share) compared to $15,332,000 ($0.78 per share) in the same period in 2012. 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.

Bonterra's dividends to its shareholders are funded by cash flow from operating activities with the remaining cash flow directed towards capital spending and, where applicable, the repayment of debt. To the extent that the excess cash flow from operations after dividends is not sufficient to cover capital spending, the shortfall is funded by funds from the exercising of employee stock options, the sale of investments and by draw downs from Bonterra's credit facilities. Bonterra intends to provide dividends to shareholders that are sustainable to the Company considering its liquidity and its long-term operational strategy. In addition, since the level of dividends is highly dependent upon cash flow generated from operations, which fluctuates significantly in relation to changes in financial and operational performance, commodity prices, interest and exchange rates and many other factors, future dividends cannot be assured. Bonterra's payout ratio based on cash flow was 55 percent for the three months ended March 31, 2013 (71 percent for the three months ended March 31, 2012).

Net Debt to Cash Flow

Bonterra intends to continue focusing on managing its cash flow, capital expenditure ranges and dividend payments. Annualizing the first quarter of 2013 cash flow, the Company met its annual guidance range of 1 to 1 times to 1.5 to 1 times net debt to cash flow ratio with a ratio of 1.36 to 1 times. This ratio brings the Company back to within its targeted net debt to cash flow guidance. The Company believes the Spartan acquisition (see Note 4 to the condensed financial statements) will continue to sustain future cash flows and shareholder dividends and significantly improve the debt to cash flow ratio back within its annual guidance by the end of the year. The Company anticipates that with reduced capital expenditures in Q2 2013 this ratio should decrease further.

Quarterly Financial Information

For the periods ended ($ 000s except $ per share)	2013 Q1	2012 Q4	2012 Q3	2012 Q2	2012 Q1
Revenue – oil and gas sales	**66,468**	39,624	35,204	31,049	36,893
Cash flow from operations	**40,726**	21,460	16,440	14,727	21,698
Net earnings	**12,695**	6,082	7,746	9,201	10,182
Per share – basic	**0.46**	0.31	0.39	0.47	0.52
Per share – diluted	**0.46**	0.31	0.39	0.46	0.51

For the periods ended ($ 000s except $ per share)	2011 Q4	2011 Q3	2011 Q2	2011 Q1
Revenue – oil and gas sales	42,818	36,535	44,754	38,170
Cash flow from operations	26,180	21,730	25,465	24,034
Net earnings	6,067	9,384	14,533	13,624
Per share – basic	0.31	0.49	0.75	0.71
Per share – diluted	0.31	0.48	0.74	0.69

The fluctuations in the Company's revenue and net earnings from quarter to quarter are primarily caused by variations in production volumes, realized oil and natural gas pricing and the related impact on royalties. Q1 2013 revenue, cash flow and net earnings were higher than the prior quarter due to the Spartan acquisition.

Critical Accounting Estimates

There have been no changes to the Company's critical accounting policies and estimates as of the period ended in the financial statements.

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.

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 as of the end of the period covered by the interim filing 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 period end of the Company and concluded that the Company's internal control over financial reporting are effective for the foregoing purpose.

No changes were made to the Company's internal controls over financial reporting during the end of the period covered by the interim filing that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

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.

Financial Reporting Update

As of January 1, 2013, the Company adopted several new IFRS standards and amendments in accordance with the transitional provisions of each standard. A brief description of each new standard and its impact on the Company's financial statements follows below:

IAS 1 "Presentation of Financial Statements" which requires companies to group together items within other comprehensive income that may be reclassified to the net earnings section of the statement of comprehensive income. The retrospective adoption of this standard did not have any impact on the Company's financial statements.

IFRS 10 “Consolidated Financial Statements”

Replaces Standing Interpretations Committee 12, “Consolidation - Special Purpose Entities” and the consolidation requirements of IAS 27 “Consolidated and Separate Financial Statements”. The new standard replaces the existing risk and rewards based approaches and establish control as the determining factor when determining whether an interest in another entity should be included in the consolidated financial statements. The adoption of this standard is not applicable to the Company’s financial statements.

IFRS 11 “Joint Arrangements”

Replaces IAS 31 “Interests in Joint Ventures” along with amending IAS 28 “Investment in Associates”. IFRS 11, “Joint Arrangements,” requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. The Company performed a review of its interest in other entities and did not identify any significant interests for which it shares joint control, as such, there is no impact as a result of this standard.

IFRS 12 “Disclosure of Interests in Other Entities”

Provides comprehensive disclosure requirements on interests in other entities, including joint arrangements, associates, and special purpose vehicles. The new disclosure requires information that will assist financial statement users in evaluating the nature, risks and financial effects of an entity’s interest in subsidiaries and joint arrangements. None of these disclosure requirements are applicable for the condensed financial statements, unless significant events and transactions in the period require that they are provided. Accordingly the Company has not made such disclosure.

IFRS 13 "Fair Value Measurement"

Provides a common definition of fair value within IFRS. The new standard provides measurement and disclosure guidance and applies when IFRS requires or permits the item to be measured at fair value, with limited exceptions. This standard does not determine when an item is measured at fair value and as such does not require new fair value measurements. There has been no change to the Company’s methodology for determining the fair value for its financial assets and liabilities, and as such, the application of IFRS 13 has not resulted in any adjustments to the fair value measurements carried out by the Company.

As of January 1, 2015, Bonterra will be required to adopt amendments to IFRS 9 “Financial Instruments.”
The result of the first phase of the IASB’s project to replace IAS 39, “Financial Instruments: Recognition and Measurement”. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. Bonterra does not expect a material impact as a result of this amendment.

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 condensed 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, 2013**	**December 31, 2012**
Assets			
Current			
Accounts receivable		**34,812**	19,158
Crude oil inventory		**832**	797
Prepaid expenses		**2,339**	1,635
Investments		**4,273**	4,136
		42,256	25,726
Investment in related party	3	**900**	910
Exploration and evaluation assets	5	**9,927**	1,982
Property, plant and equipment	6	**843,031**	341,452
Investment tax credit receivable		**27,670**	27,670
Deferred tax asset	8	**-**	22,193
Goodwill	4,7	**92,810**	-
		1,016,594	419,933
Liabilities			
Current			
Accounts payable and accrued liabilities		**44,898**	28,602
Risk management contract	14	**1,877**	-
Due to related parties	9	**12,000**	12,000
Subordinated promissory note	10	**15,000**	15,000
		73,775	55,602
Bank debt	11	**189,509**	166,808
Decommissioning liabilities		**43,179**	34,246
Deferred tax liability	8	**52,069**	-
		358,532	256,656
Commitments and subsequent events	16, 17		
Shareholders' equity			
Share capital	12	**652,135**	149,877
Contributed surplus		**10,359**	9,167
Accumulated other comprehensive income		**1,972**	1,620
Retained earnings (deficit)		**(6,404)**	2,613
		658,062	163,277
		1,016,594	419,933

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	**2013**	2012
Revenue			
Oil and gas sales, net of royalties	13	**59,663**	32,297
Loss on risk management contract	14	**(292)**	-
Other income	15	**203**	1,642
		59,574	33,939
Expenses			
Production costs		**13,826**	9,056
Office and administration		**2,095**	311
Employee compensation		**1,387**	1,062
Finance costs		**2,026**	1,098
Share-based payments	12	**1,192**	1,072
Depletion and depreciation	6	**19,561**	7,628
Exploration and evaluation expenses	5	**276**	-
		40,363	20,227
Earnings before income taxes		**19,211**	13,712
Deferred income taxes		**6,516**	3,530
Net earnings for the period		**12,695**	10,182
Other comprehensive income (loss)			
Unrealized gains on investments		**518**	360
Deferred taxes on unrealized gains on investments		**(65)**	(45)
Realized gains on investments transferred to net earnings		**(115)**	(445)
Deferred taxes on realized gains on investments transferred to net earnings		**14**	56
Other comprehensive gain (loss) for the period		**352**	(74)
Total comprehensive income for the period		**13,047**	10,108
Net earnings per share - basic	12	**0.46**	0.52
Net earnings per share – diluted	12	**0.46**	0.51
Comprehensive income per share - basic	12	**0.47**	0.51
Comprehensive income per share – diluted	12	**0.47**	0.51

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENTS OF CASH FLOW

For the three months ended March 31 (unaudited)

($ 000s)	Note	2013	2012
Operating activities			
Earnings before income taxes		**19,211**	13,712
Items not affecting cash			
Share-based payments		**1,192**	1,072
Depletion and depreciation		**19,561**	7,628
Exploration and evaluation expenses		**276**	-
Unrealized loss on risk management contract		**17**	-
Unwinding of the fair value of decommissioning liabilities		**242**	218
Gain on sale of property		**-**	(1,109)
Gain on sale of investments		**(115)**	(445)
Investment income		**(35)**	(6)
Interest expense		**1,784**	880
Change in non-cash working capital			
Change in accounts receivable		**(2,777)**	3,098
Change in crude oil inventory		**78**	160
Change in prepaid expenses		**212**	114
Change in accounts payable and accrued liabilities		**3,042**	(2,717)
Decommissioning expenditures		**(178)**	(27)
Interest paid		**(1,784)**	(880)
Cash provided by operating activities		**40,726**	21,698
Financing activities			
Increase (decrease) in bank debt		**22,701**	5,627
Stock option proceeds		**-**	3,520
Dividends		**(21,712)**	(15,332)
Cash provided by (used in) financing activities		**989**	(6,185)
Investing activities			
Investment income received		**35**	6
Exploration and evaluation expenditures		**-**	(6)
Property, plant and equipment expenditures		**(49,506)**	(22,516)
Proceeds on sale of property		**-**	1,109
Purchase of investments		**-**	(185)
Proceeds on sale of investments		**391**	1,231
Cash acquired on acquisition	4	**10,000**	-
Change in non-cash working capital			
Change in accounts payable and accrued liabilities		**(343)**	5,112
Change in accounts receivable		**(2,292)**	(264)
Cash used in investing activities		**(41,715)**	(15,513)
Net cash inflow		**-**	**-**
Cash, beginning of period		**-**	**-**
Cash, end of period		**-**	**-**

See accompanying notes to these condensed financial statements.

CONDENSED STATEMENTS OF CHANGES IN EQUITY

For the periods ended (unaudited)

($ 000s, except number of shares outstanding)

	Number of shares outstanding (Note 12)	Share capital (Note 12)	Contributed surplus [(1)]	Accumulated other comprehensive income [(2)]	Retained earnings (deficit)	Total shareholders' equity
January 1, 2012	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
Share-based payments			3,169			3,169
Exercise of options	166,500	3,414				3,414
Transfer to share capital on exercise of options		140	(140)			-
Comprehensive income (loss)				(968)	23,029	22,061
Dividends					(46,375)	(46,375)
December 31, 2012	19,909,541	149,877	9,167	1,620	2,613	163,277
Share-based payments			1,192			1,192
Acquisition (Note 4)	10,711,405	502,258				502,258
Comprehensive income (loss)				352	12,695	13,047
Dividends					(21,712)	(21,712)
March 31, 2013	30,620,946	652,135	10,359	1,972	(6,404)	658,062

[(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, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012 (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 financial statements were authorized for issue by the Company's Board of Directors on May 13, 2013.

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 2012 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 2012 audited annual financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

b) Recent Accounting Pronouncements

As of January 1, 2013, the Company adopted several new IFRS standards and amendments in accordance with the transitional provisions of each standard. A brief description of each new standard and its impact on the Company's financial statements follows below:

IAS 1 "Presentation of Financial Statements" which requires companies to group together items within other comprehensive income that may be reclassified to the net earnings section of the statement of comprehensive income. The retrospective adoption of this standard did not have any impact on the Company's financial statements.

IFRS 10 "Consolidated Financial Statements"

Replaces Standing Interpretations Committee 12, "Consolidation - Special Purpose Entities" and the consolidation requirements of IAS 27 "Consolidated and Separate Financial Statements". The new standard replaces the existing risk and rewards based approaches and establish control as the determining factor when determining whether an interest in another entity should be included in the consolidated financial statements. The adoption of this standard is not applicable to the Company's financial statements.

IFRS 11 "Joint Arrangements"

Replaces IAS 31 "Interests in Joint Ventures" along with amending IAS 28 "Investment in Associates". IFRS 11, "Joint Arrangements," requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. The Company performed a review of its interest in other entities and did not identify any significant interests for which it shares joint control, as such, there is no impact as a result of this standard.

IFRS 12 “Disclosure of Interests in Other Entities”

Provides comprehensive disclosure requirements on interests in other entities, including joint arrangements, associates, and special purpose vehicles. The new disclosure requires information that will assist financial statement users in evaluating the nature, risks and financial effects of an entity’s interest in subsidiaries and joint arrangements. None of these disclosure requirements are applicable for the condensed financial statements, unless significant events and transactions in the period require that they are provided. Accordingly the Company has not made such disclosure.

IFRS 13 "Fair Value Measurement"

Provides a common definition of fair value within IFRS. The new standard provides measurement and disclosure guidance and applies when IFRS requires or permits the item to be measured at fair value, with limited exceptions. This standard does not determine when an item is measured at fair value and as such does not require new fair value measurements. There has been no change to the Company’s methodology for determining the fair value for its financial assets and liabilities, and as such, the application of IFRS 13 has not resulted in any adjustments to the fair value measurements carried out by the Company.

c) Recent Accounting Pronouncements

As of January 1, 2015, Bonterra will be required to adopt amendments to IFRS 9 “Financial Instruments.”
The result of the first phase of the IASB’s project to replace IAS 39, “Financial Instruments: Recognition and Measurement”. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. Bonterra does not expect a material impact as a result of this amendment.

3. INVESTMENT IN RELATED PARTY

The investment consists of 1,034,523 (December 31, 2012 – 1,034,523) common shares in Pine Cliff Energy Ltd. (Pine Cliff), a company with common directors and some common management with Bonterra. The investment in Pine Cliff represents 1.3 percent ownership in the outstanding common shares of Pine Cliff and is recorded at fair market value. The common shares of Pine Cliff trade on the TSX Venture Exchange under the symbol PNE.

In addition, Geomark Exploration Ltd. (a wholly owned subsidiary of Pine Cliff) owns 204,633 (December 31, 2012 – 204,633) common shares in Bonterra.

4. ACQUISITION

On January 25, 2013, Bonterra acquired 100 percent of the issued and outstanding common shares of Spartan Oil Corp. (Spartan) pursuant to an arrangement agreement (Spartan Transaction). Spartan was a public oil and gas company with properties in Alberta and Saskatchewan. Consideration for Spartan shares was 0.1169 voting common shares of Bonterra, which amounted to the issuance of 10,711,405 Bonterra shares valued at $502,258,000, using the closing share price of $46.89 per share on the date of the Spartan Transaction. The exchange ratio for the transaction represents a deemed price of $5.03 per Spartan Share. The Spartan assets contributed revenue (primarily oil and gas sales, net of royalties) of $22,059,000 and operating and administrative expenses of $2,977,000 for the period from January 25, 2013 to March 31, 2013. If the acquisition had occurred on January 1, 2013, total revenue (primarily oil and gas sales, net of royalties) would have been approximately $29,633,000 and operating and administrative expenses would have been $5,774,000 for the three month period ended March 31, 2013. The Spartan Transaction was accounted for as a business combination with Bonterra identified as the acquirer.

The purchase price allocation using the acquisition method was allocated to the assets acquired and the liabilities assumed as follows:

Net assets acquired:	($ 000s)
Exploration and evaluation assets	8,830
Property, plant and equipment	471,139
Goodwill	92,810
Working capital	
Cash	10,000
Accounts receivable	10,585
Prepaid expense	915
Accounts payable and accrued liabilities	(13,597)
Risk management contract	(1,859)
Decommissioning liabilities	(8,870)
Deferred tax liability	(67,695)
Total	502,258

Consideration:	
Bonterra shares (10,711,405 shares at $46.89)	502,258
Total purchase price	502,258

On March 1, 2013, Spartan was amalgamated with Bonterra.

5. EXPLORATION AND EVALUATION ASSETS

($ 000s)	
Cost and carrying amount	
Balance at December 31, 2012	1,982
Addition from acquisition	8,830
Transfers to property, plant and equipment	(608)
Expiry of exploration and evaluation assets	(277)
Balance at March 31, 2013	**9,927**

6. PROPERTY, PLANT AND EQUIPMENT

Cost ($ 000s)	**Oil and gas properties**	**Production facilities**	**Furniture, fixtures & other equipment**	**Total property, plant & equipment**
Balance at December 31, 2012	**427,241**	**94,902**	**1,661**	**523,804**
Additions	44,410	5,093	2	49,505
Transfers from exploration and evaluation assets	608	-	-	608
Acquisition	378,685	92,454	-	471,139
Balance at March 31, 2013	**850,944**	**192,449**	**1,663**	**1,045,056**

Accumulated Depletion and Depreciation ($ 000s)	**Oil and gas properties**	**Production facilities**	**Furniture, fixtures & other equipment**	**Total property, plant & equipment**
Balance at December 31, 2012	**(143,607)**	**(37,521)**	**(1,224)**	**(182,352)**
Depletion and depreciation	(16,315)	(3,226)	(20)	(19,561)
Disposal and other	(112)	-	-	(112)
Balance at March 31, 2013	**(160,034)**	**(40,747)**	**(1,244)**	**(202,025)**

Carrying amounts as at: **($ 000s)**				
December 31, 2012	283,634	57,381	437	341,452
March 31, 2013	**690,910**	**151,702**	**419**	**843,031**

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, 2013 and 2012.

7. GOODWILL

Goodwill acquired through business combinations has been allocated to the cash generating unit (CGU) or groups of CGU's that are expected to benefit from the synergies of the acquisition. The amount recorded as goodwill related to the Spartan transaction has all been allocated to its primary CGU, the Pembina Cardium and Willesden Green assets in Alberta, Canada. There were no impairment losses recorded in the statement of comprehensive income for the three months ended March 31, 2013 and 2012.

8. 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	71,894
Eligible capital expenditures	7	5,820
Share issue costs	20	6,172
Canadian oil and gas property expenditures	10	75,666
Canadian development expenditures	30	239,805
Canadian exploration expenditures	100	12,279
Income tax losses carried forward (1)	100	220,001
		631,637

(1) Federal income tax losses carried forward expire in the following years; 2026 - $45,168,000, 2027 - $117,189,000, 2028 - $35,248,000, 2029 - $13,131,000, 2032 - $9,265,000.

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 $135,273,000 (December 31, 2012 - $135,502,000) of capital loss carry forwards which can only be claimed against taxable capital gains.

9. TRANSACTIONS WITH RELATED PARTIES

As at March 31, 2013, the Company's CEO, Chairman of the Board and major shareholder has loaned the Company $12,000,000 (December 31, 2012 - $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 was $70,000 (March 31, 2012 - $72,000).

The Company received a management fee of $15,000 for the three months ended March 31, 2013 (March 31, 2012 - $82,000 from Pine Cliff and Geomark) for management services and office administration from Pine Cliff. This fee has been included in other income. As at March 31, 2013, the Company had an account receivable from Pine Cliff of $2,000 (December 31, 2012 - $45,000).

10. SUBORDINATED PROMISSORY NOTE

As at March 31, 2013, Bonterra has borrowed $15,000,000 (December 31, 2012 - $15,000,000) from a private investor, in exchange for a Subordinated Promissory Note. 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. 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 year was $111,000 (March 31, 2012 - $112,000).

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.

Effective April 4, 2013, the Company increased its Subordinated Promissory Note by an additional $10,000,000, for a total of $25,000,000 under the same terms and conditions. In addition, the security consisting of a floating demand debenture was increased to $25,000,000 (December 31, 2012 - $15,000,000).

11. BANK DEBT

As at March 31, 2013, the Company has bank facilities consisting of $220,000,000 (December 31, 2012 - $160,000,000) syndicated revolving credit facility and a $30,000,000 (December 31, 2012 - $20,000,000) non-syndicated revolving credit facility. Amounts drawn under the credit facilities at March 31, 2013 were $189,509,000 (December 31, 2012 - $166,808,000). Amounts borrowed under the credit facilities at March 31, 2013 bear interest at a floating rate based on the applicable Canadian prime rate, which is presently three percent 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 facilities provided that the loan is revolving to April 24, 2014 and with a maturity date of April 25, 2015 and is subject to annual review. The revolving credit facilities have 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 as at March 31, 2013 (December 31, 2012 - $400,000). Security for credit facilities consists of various and floating demand debentures totaling $400,000,000 (December 31, 2012 - $300,000,000) over all of the Company's assets and a 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 $250,000,000 in consolidated debt (includes working capital but excludes amounts due to related parties and subordinated promissory note).
- Dividends paid in the current quarter shall not exceed 80 percent of the average available cash flow for the preceding four fiscal quarters.

Available cash flow is defined to be cash provided by operating activities excluding gains on sale of property and investments, the change in non-cash working capital and decommissioning liabilities settled and including all net proceeds of dispositions included in cash used in investing activities. At March 31, 2013, the Company is in compliance with all covenants.

12. SHAREHOLDERS' EQUITY

Authorized

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

Issued and fully paid – common shares	Number	Amount ($ 000s)
Balance, December 31, 2012	**19,909,541**	**149,877**
Acquisition	**10,711,405**	**502,258**
Balance, March 31, 2013	**30,620,946**	**652,135**

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 is as follows:

	2013	2012
Basic shares outstanding	**27,764,571**	19,662,450
Dilutive effect of share options (1)	**58,482**	134,024
Diluted shares outstanding	**27,823,053**	19,796,474

(1) The Company did not include 1,219,000 share options for the three months ended March 31, 2013 (March 31, 2012 – 605,000) in the dilutive effect of share options calculation as these share options were anti-dilutive.

For the three months ended March 31, 2013, the Company declared and paid dividends of $21,712,000 ($0.80 per share) (March 31, 2012 - $15,332,000 ($0.78 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 3,062,095 (December 31, 2012 – 1,990,954) 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, 2013, and changes during the year ended on those dates is presented below:

	Number of options	Weighted average exercise price
Balance, December 31, 2012	1,902,000	$49.99
Options granted	196,000	47.66
Balance, March 31, 2013	2,098,000	$49.77

The following table summarizes information about options outstanding at March 31, 2013:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number outstanding at March 31, 2013	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at March 31, 2013	Weighted-average exercise price
$ 40.00 – $ 49.50	1,051,000	1.7 years	$45.18	6,000	$48.60
50.00 – 59.00	1,047,000	2.3 years	54.38	513,500	57.57
$ 40.00 – $ 59.00	2,098,000	2.0 years	$49.77	519,500	$57.47

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 2013, the Company granted 196,000 stock options with an estimated fair value of $853,000 or $4.35 per option using the Black-Scholes option pricing model with the following key assumptions:

	March 31, 2013
Weighted-average risk free interest rate (%)(1)	**1.16**
Expected life (years)	**1.91**
Weighted-average volatility (%) (2)	**27.53**
Forfeiture rate (%)	**-**
Weighted average dividend yield (%)	**7.05**

(1) Risk-free interest rate is based on the weighted average Government of Canada benchmark bond yields for one, two, and three 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.

13. OIL AND GAS SALES, NET OF ROYALTIES

($ 000s)	March 31, 2013	March 31, 2012
Oil and gas sales	**66,468**	36,893
Less:		
Crown royalties	**(3,984)**	(3,146)
Freehold, gross overriding royalties and other	**(2,820)**	(1,450)
Oil and gas sales, net of royalties	**59,663**	32,297

14. RISK MANAGEMENT CONTRACT

($ 000s)	**March 31, 2013**	**March 31, 2012**
Risk management contract		
Realized gain (loss)	**(275)**	-
Unrealized gain (loss)	**(17)**	-
	(292)	-

With the Spartan transaction, the Company inherited a derivative financial instrument entered into by Spartan to manage its exposure to fluctuations in commodity prices. The financial derivative is outstanding for the period January 1, 2013, to December 31, 2013 for a total 273,750 barrels of oil at a fixed price of $90.00 Cdn per barrel. It is estimated that a 10 percent change in the forward crude oil prices used to calculate the fair value of the derivative as at March 31, 2013 for the remainder of the year would result in a $1,108,000 change in net earnings for the three month period ended March 31, 2013.

15. OTHER INCOME

($ 000s)	**March 31, 2013**	**March 31,2012**
Investment income	**35**	6
Administrative income	**53**	82
Gain on sale of property	-	1,109
Realized gain on investments	**115**	445
Other income	**203**	1,642

16. COMMITMENTS

The Company has entered into leases for buildings and office equipment. These leases have an average life of 4.8 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, 2013 are as follows:

($ 000s)	
Within one year	1,435
After one year but not more than five years	4,906
Total	6,341

17. SUBSEQUENT EVENTS

Subsequent to March 31, 2013, the Company has declared the following dividends:

Date declared	Record date	$ per share	Date payable
April 2, 2013	April 15, 2013	0.28	April 30, 2013
May 2, 2013	May 15, 2013	0.28	May 31, 2013

Corporate Information

BOARD OF DIRECTORS
G. J. Drummond
G. F. Fink
R. M. Jarock
C. R. Jonsson
F.W. Woodward

OFFICERS
G. F. Fink, CEO and Chairman of the Board
R. D. Thompson, CFO and Secretary
B. A. Curtis, Vice President, Business Development
A. Neumann, Vice President, Engineering and Operations

REGISTRAR AND TRANSFER AGENT
Olympia Trust Company, Calgary, Alberta

AUDITORS
Deloitte LLP, Calgary, Alberta

SOLICITORS
Borden Ladner Gervais LLP, Calgary, Alberta

BANKERS
CIBC, Calgary, Alberta
Alberta Treasury Branch, Calgary, Alberta
National Bank of Canada, Calgary, Alberta
TD Securities, Calgary, Alberta
J.P. Morgan, Calgary, Alberta

HEAD OFFICE
901, 1015 – 4th Street SW
Calgary, Alberta T2R 1J4
Telephone: 403.262.5307
Fax: 403.265-7488
Email: info@bonterraenergy.com

WEBSITE
www.bonterraenergy.com