



Annual Information Form

For the Year Ended December 31, 2007

April 28, 2008

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ABBREVIATIONS

Oil and Natural Gas Liquids

bbl	barrels
mdbl	thousand barrels
mmbbl	million barrels
bbl/d	barrels of oil per day
API	American Petroleum Institute
NGLs	natural gas liquids
stb	standard stock tank barrel
mstb	thousand standard stock tank barrels

Natural Gas

mcf	thousand cubic feet
mmcf	million cubic feet
mcf/d	thousand cubic feet per day
mmcf/d	million cubic feet per day
mmbtu	million British thermal units
GJ	gigajoule
GJ/d	gigajoules per day
H ₂ S	hydrogen sulfide

Other

boe	barrel of oil equivalent converting six mcf of natural gas to one barrel of oil (6:1)
boe/d	barrels of oil equivalent per day
km	kilometre
mboe	thousand of barrels of oil equivalent
M\$	thousands of dollars
MM\$	millions of dollars
NPV	net present value
OPEC	Organization of Petroleum Exporting Countries

In this Annual Information Form the calculation of barrels of oil equivalent (boe) is calculated at a conversion rate of 6,000 cubic feet (mcf) of natural gas for one barrel (bbl) of oil based on an energy equivalency conversion method. Boes 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 to the burner tip and does not represent a value equivalency at the wellhead.

CURRENCY

In this Annual Information Form, unless otherwise noted, all dollar amounts are expressed in Canadian dollars.

FORWARD-LOOKING STATEMENTS

Certain information and statements contained in this Annual Information Form and in certain documents incorporated by reference into this Annual Information Form, constitute forward-looking statements within the meaning of applicable Canadian securities legislation. Such information is subject to known and unknown risks, uncertainties and other factors that could influence actual results or events, and cause actual results or events to differ materially from those stated, anticipated or implied in the forward looking information. As such, readers are cautioned not to place undue reliance on the forward-looking information, as no assurances can be provided as to future results, levels of activity or achievements. Terra Energy assumes no obligation to update forward-looking statements should circumstances or management's estimates change, except as required pursuant to applicable securities laws. In addition, the reader is cautioned that historical results are not necessarily indicative of future performance.

Forward-looking information and statements are included throughout this Annual Information Form (and the documents incorporated by reference herein) including under the headings "General Development of the Business", "Statement of Reserves Data and Other Oil and Gas Information", "Additional

Information Relating to Reserves Data”, “Other Oil and Gas Information”, “Risk Factors” and “Industry Conditions” and include, but are not limited to, statements pertaining to the following:

- the performance characteristics of the Corporation’s oil and natural gas properties;
- oil and natural gas production levels;
- the quantity of oil and natural gas reserves;
- capital expenditure programs;
- supply and demand for oil and natural gas and commodity prices;
- drilling plans;
- expectations regarding the Corporation’s ability to raise capital and to continually add to reserves through acquisitions, exploration and development;
- trends in the oil and gas industry;
- treatment under governmental regulatory regimes and tax laws; and
- realization of the anticipated benefits of acquisitions and dispositions.

The Corporation’s actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this Annual Information Form:

- general economic conditions in Canada, the United States and globally;
- industry conditions, including fluctuations in the price of oil and natural gas;
- governmental regulation of the oil and gas industry, including environmental regulation;
- fluctuation in foreign exchange or interest rates;
- liabilities inherent in oil and natural gas operations;
- geological, technical, drilling and processing problems;
- unanticipated operating events which can reduce production or cause production to be shut in or delayed;
- failure to obtain industry partner and other third party consents and approvals, when required;
- stock market volatility and market valuations;
- competition for, among other things, capital, acquisitions of reserves, undeveloped land and skilled personnel;
- the need to obtain required approvals from regulatory authorities; and
- the other factors considered under “Risk Factors”.

These factors should not be considered exhaustive.

THE CORPORATION

Terra Energy Corp. ("**Terra Energy**" or the "**Corporation**") was amalgamated pursuant to the Alberta Business Corporation Act ("**ABCA**") on January 30, 2004 (the "**Terra Energy Amalgamation**"). One of the amalgamating predecessor corporations, Rhodes Resources Corp. ("**Rhodes**") was continued under the ABCA on November 1, 2002. The other amalgamating corporations, Terrapet Energy Corp. ("**Terrapet**") and Terra Energy Corp. were incorporated pursuant to the ABCA.

The head office of the Corporation is located at Suite 970, 333-7th Ave S.W., Calgary, Alberta T2P 2Z1 and its registered office is located at 1000, 400 - 3rd Street S.W., Calgary, Alberta T2P 4H2.

Intercorporate Relationships

Currently, the Corporation has one wholly-owned subsidiary, Constar Resources Ltd., an Alberta corporation. Terra Energy and Constar Resources Ltd. are partners in the Terra Energy Partnership, a general partnership which carries on oil and gas exploration, development and production activities utilizing the assets of the partners.

GENERAL DEVELOPMENT OF THE BUSINESS

Business of the Corporation

The Corporation is an oil and gas exploration, development and production company operating primarily in the Western Canadian Sedimentary Basin.

Corporate Strategy

Terra Energy expects to grow through a combination of low-risk exploitation and high-impact exploration drilling. Terra Energy will, however, consider additional growth opportunities through business combinations, the acquisition of oil and gas properties, acquisition of undeveloped lands and through additional development and exploratory drilling. Growth will be funded through cash flow, increased debt, equity offerings and / or asset rationalizations.

History of the Corporation

2002

On July 12, 2002, International Choice Ventures Inc. ("**ICVI**") agreed to purchase certain petroleum and natural gas assets from Terra Capital Corp. in return for shares of ICVI, as a reverse take-over of the ICVI. The reverse take-over was completed on October 31, 2002 and ICVI was continued under the ABCA, changed its name to Rhodes Resources Corp. and completed a share consolidation on a one-for-two basis. From October 31, 2002 until the Terra Energy Amalgamation, Rhodes continued in the business of oil and gas exploration, development and production with properties located primarily in Western Canada.

2003

In March 2003, Rhodes completed a private placement of 1,660,000 units at a price of \$0.15 per unit for gross proceeds of \$249,000. Each unit consisted of one "flow-through" common share and one purchase warrant, each warrant entitling the holder thereof to purchase one common share at a price of \$0.20 per share prior to March 7, 2005.

In October 2003, Rhodes completed a private placement of 1,553,333 units at a price of \$0.15 per unit for gross proceeds of \$233,000. Each unit consisted of one "flow-through" common share and one

common share purchase warrant entitling the holder thereof to purchase one common share at an exercise price of \$0.20 per share until October 28, 2005.

In December 2003, Rhodes completed a private placement offering of 7,432,500 "flow-through" common shares at a price of \$0.20 per share for gross proceeds of \$1,486,500 and the first tranche of 3,437,500 units at a price of \$0.20 per unit for gross proceeds of \$687,500. Each unit was comprised of a common share and a warrant with each warrant entitling the holder thereof to acquire one common share at an exercise price of \$0.22 per share until December 31, 2004 and thereafter at a price of \$0.24 per share until December 31, 2005. A second tranche of 350,000 units at a price of \$0.20 per unit was completed in January 2004 for gross proceeds of \$70,000.

Since its incorporation, Terrapet had grown production through a strategy of low risk exploitation and timely acquisitions. On November 25, 2003, Terrapet completed the acquisition of a private oil and gas company called Constar Resources Ltd. ("**Constar**") by the issuance of approximately 929,752 Series VI 8% preferred shares of Terrapet and assuming the debt obligations of Constar. The production of Constar was approximately 100 boe per day. On October 30, 2003, 2,500,000 Series VI 8% preferred shares were issued for \$2,500,000 to Terra Capital Corp. At the time of the Terra Energy Amalgamation, Terrapet was producing approximately 900 boe per day.

2004

On January 30, 2004, Rhodes, Terrapet and Terra Energy Corp. amalgamated to form Terra Energy Corp. All of the holders of common shares of Rhodes received one common share of Terra Energy for every five common shares of Rhodes. The Series VI 8% preferred shares of Terrapet were converted to common shares of Terra Energy on the basis of one common share for each preferred share and all outstanding common shares of Terrapet were exchanged for common shares of Terra Energy on the basis of a valuation formula derived from the relative asset values of Terrapet and Rhodes. The Series I, II, III, IV and V preferred shares of Terrapet were exchanged for preferred shares of Terra Energy with similar attributes. A total of 28,930,002 common shares and 1,148,641 preferred shares of Terra Energy were issued pursuant to the Terra Energy Amalgamation. Further information regarding the Terra Energy Amalgamation can be found in the information circular of Rhodes (the "**Rhodes Circular**") which can be found on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

Since the Terra Energy Amalgamation, Terra Energy has continued in the business of oil and gas exploration, development and production with properties located primarily in Western Canada.

In August 2004, Terra Energy completed a private placement of 3,450,000 "flow-through" common shares at a price of \$1.30 per share for gross proceeds of \$4,485,000.

On December 14, 2004, Terra Energy completed a private placement of 1,075,000 "flow-through" common shares at a price of \$1.30 per share for gross proceeds of \$1,505,000.

On December 31, 2004, Terra Energy acquired Fossil Bay Resources Ltd. ("**Fossil Bay**") through an amalgamation under the ABCA of Terra Energy's wholly-owned subsidiary, Terra Resources Inc., with Fossil Bay and the amalgamated entity continued its existence as "Terra Resources Inc." Terra Energy paid approximately \$75,361 and issued approximately 616,118 common shares in the aggregate to shareholders of Fossil Bay as the aggregate consideration for the acquisition of Fossil Bay. Upon completion of such amalgamation, Terra Resources Inc. was wound up into Terra Energy on December 31, 2004.

On December 30, 2004, Terra Energy completed the first tranche of a private placement financing by issuing 5,596,854 "flow-through" common shares at a price of \$1.40 per share for gross proceeds of \$7,835,595 and 3,000,000 subscription receipts at a price of \$1.25 per subscription receipt for gross

proceeds of \$3,750,000. Each subscription receipt was exchanged for a unit of Terra Energy with each unit comprised of one common share of Terra Energy and one-half of one warrant. Each whole warrant entitles the holder thereof to acquire one common share of Terra Energy for a price of \$1.40 per share for a period of one year from the date of closing and thereafter at a price of \$1.60 per share for up to two years from the date of closing.

A second tranche of 3,366,361 "flow-through" common shares and 6,561,200 units were sold in January 2005 for gross proceeds of \$12,914,405. Of the 3,366,361 "flow-through" common shares sold, 2,857,143 closed in escrow, which escrow terminated in February, 2005.

On December 31, 2004, Terra Energy completed the acquisition of certain strategic oil and natural gas properties in the Fort St. John area of northeastern British Columbia for approximately \$32,000,000. The properties were comprised of approximately 75 sections of developed and undeveloped lands which complemented Terra Energy's existing core properties of Stoddart and Boudreau. The transaction was effective October 1, 2004 and was funded from the December 2004 private placement financing and a standby mezzanine financing credit facility. The terms of the credit facility included a six month term at 10% annualized interest; a 5% stand by fee on any portion of the credit facility not drawn down; a 3% agency fee to an agent on the drawn down portion of the credit facility as well as a 1.5% fee on the portion of the credit facility and not drawn down (split equally between Terra Energy and the lender); a Closing fee of 0.75% on the advanced portion of the credit facility, and lenders warrants equal to 50% of the advanced portion of the credit facility, expressed in dollars, at prices varying from \$1.20 to \$1.60, over periods extending out to three years. The Corporation drew down \$10,000,000 against an available \$15,000,000 facility in order to facilitate the acquisition. The entire facility was repaid March 29, 2005.

2005

Capitalizing on the strategic oil and natural gas properties in the Fort St. John area of northeastern British Columbia, Terra Energy began an aggressive drilling program in 2005 to prove up exploration prospects as well as develop existing properties. In 2005, Terra Energy experienced a 100% success rate with its exploration wells, for an overall success rate of 92% in 2005.

To assist in the financing of Terra Energy's 2005 summer drilling program, on July 7, 2005 Terra Energy announced a "bought deal" equity financing. Due to excess demand, on July 8, 2005, Terra Energy agreed to increase the offering from \$15,299,800 to a total of \$23,299,500. The offering consisted of 3,900,000 common shares issued on a flow-through basis at a price of \$2.00 per share totaling \$7,800,000 and 9,117,353 units at a per unit price of \$1.70 totaling \$15,499,500. Each unit was comprised of one common share and one half common share purchase warrant. Each whole warrant entitled the warrant holder to acquire one common share at an exercise price of \$2.10 at any time prior July 27, 2006.

Through various equity issues, Terra Energy issued several series of warrants, each of which entitle the holder to acquire one common share of Terra Energy at different prices for a certain period of time ranging from 1 to 2 years. In 2005, a total of 3,223,417 warrants were exercised for gross proceeds of \$4,084,502.

2006

Terra Energy's focus in 2006 was the delineation and development of several high impact fields in the Corporation's core area of Fort St. John in North East British Columbia. During 2006, Terra Energy drilled 18 gross (13.8 net) wells with a 77% success rate. As a result of the successful drilling, Terra Energy was able to finalize solutions to bring the discovered natural gas onstream through the development of certain key infrastructure projects. As a result of the drilling success, Terra Energy had

approximately 2,000 boe/d of behind pipe reserves awaiting infrastructure solutions at the end of 2006, the majority of which are expected to be brought onstream in 2007.

In May 2006, Terra Energy amended and expanded its credit facility to \$55 million through a syndicate of two financial institutions. On November 3, 2006, Terra Energy announced a "bought deal" equity financing. Later in the day due to excess demand Terra Energy increased the offering from \$7,505,000 to \$15,713,000. The offering consisted of 8,270,000 common shares issued on a flow-through basis at a price of \$1.90 per share. The Offering closed on November 21, 2006.

In 2006, a total of 2,286,650 warrants were exercised generating gross proceeds of \$3,269,485.

2007

The Corporation's focus again in 2007 was primarily on infrastructure with approximately 50% of its Capital program being applied to infrastructure and the remainder being divided between drilling, completions, land acquisition and seismic.

The Tower to Septimus pipeline project commenced flowing gas on April 30, 2007 and added approximately 500 boe/d of production from the Tower field. The East Boudreau pipeline project commenced flowing gas on September 12, 2007 and added approximately 830 boe/d. The Tower dehydration and compression facility was constructed by Terra Energy in the fourth quarter of 2007. The Corporation owns 100% of this facility. The facility commenced processing gas on December 20, 2007 and added approximately an additional 500 boe/d of incremental production from Tower.

The completion of these projects allowed Terra Energy to bring on much of its "behind pipe" production. Quarterly average production rates for 2007 were: Q1 - 2,476 boe/d, Q2 - 3,005 boe/d, Q3 - 3,706, and Q4 - 3857 boe/d.

Credit Facility

In May of 2007, Terra Energy renewed and expanded its credit facility from \$55,000,000 to \$65,000,000 with a syndicate of senior lenders. In December of 2007, the credit facility was expanded to \$70,000,000. The increases were in line with increased production.

Recent Developments

In February 2008 the Corporation completed the pipeline interconnection project for Eight Mile South, where the field was tied into third party processing facilities at Doe Creek. It is anticipated that will add approximately 500 boe per day of production; however, operations commenced at a reduced production rate during the commissioning period.

Terra Energy has, through three separate sales to industry partners, entered into agreements to sell its Montney mineral rights associated with 120 gross sections of land in and around the city of Fort St. John, British Columbia for gross proceeds of \$72.1 million. The first of these sales for \$5,000,000 covering 5 gross sections closed on February 8, 2008. The two remaining sales are anticipated to close prior to May 15, 2008. The sales are focused on and limited to the Montney formation in approximately 120 gross sections of land, leaving those mineral rights held by the Corporation in formations, both above and below the Montney, unaffected by the sale process. Terra Energy does not currently have any production from the Montney formation at Fort St. John, leaving the Corporation's production base untouched. As a result of the early stage of development of the Montney formation on the Company's lands and the fact that few Montney completions have been performed, the Corporation's most recent engineered reserves report prepared as at December 31, 2007 (which reports the Company's Total

Proved + Probable reserves at approximately 17,195,000 boes), attributed only minor proved and probable reserves to wells having Montney completions.

Environmental Matters

The oil and gas industry is subject to environmental regulations pursuant to applicable legislation. Such legislation provides for restrictions and prohibitions on release or emission of various substances produced in association with certain oil and gas industry operations, and requires that well and facility sites be abandoned and reclaimed to the satisfaction of environmental authorities. Terra Energy recorded an estimated provision on its balance sheet of \$5,033,926 for reserve and abandonment site restoration as at December 31, 2007. The Corporation maintains an insurance program consistent with industry practice to protect against losses due to accidental destruction of assets, well blowouts, pollution and other operating accidents or disruptions. The Corporation also has operational and emergency response procedures and safety and environmental programs in place to reduce potential loss exposure.

Employees

At December 31, 2007, Terra Energy's work force consisted of 26 employees. Field operations are provided by a combination of independent contractors and full-time staff. As at April 15, 2008, Terra Energy's head office work force consisted of 24 employees and our Fort St. John field office consisted of three (3) employees.

Trends

There are a number of trends in the oil and gas industry which may have both a short term and long term effect on Terra Energy. There is a continuing trend relating to the level and volatility of oil and natural gas prices. Prices for both commodities have trended upwards and volatility has increased. Although oil prices are dependent on world events, natural gas prices react more to North American supply and demand factors. With the supply and demand balance for natural gas being tight, the market is experiencing a great deal of elasticity in pricing due to a number of factors, including weather, drilling activity, production declines, storage levels, fuel switching and North American demand. Recently, liquified natural gas shipments to North America have also resulted in natural gas supply and natural gas pricing being based on factors other than supply and demand in North America. Oil prices are dependent on the world economy and the reaction of OPEC supply to global demand. Oil prices continue to remain volatile as a result of the political uncertainty and unrest around the world, potentially impacting supply. The move by nations around the world to curtail carbon emissions may lead to the development of other energy sources resulting in a slower growth in the demand for oil in the future. The Canadian/U.S. exchange rate influences commodity prices for Canadian producers as there is a high correlation between Canadian and U.S. oil and natural gas prices. Terra Energy's current production is approximately 73% weighted towards natural gas. As a result, fluctuations in the price of natural gas have a more significant affect on Terra Energy's cashflow and earnings.

The cyclical nature of the oil and gas industry is trending to shorter cycles, primarily as a result of commodity price volatility. For some investors shorter cycles implies higher risk. If investors reduce their exposure to riskier businesses, there may be less capital available to the oil and gas industry.

During recent years, there has been active consolidation within the oil and gas sector as a result of transactions where often, either large U.S. based companies or Canadian energy income trusts completed the acquisition of production and reserves. Though this trend towards consolidation began primarily with senior oil and gas producers, it subsequently affected junior producers. On October 31, 2006, the Federal Government of Canada announced proposed changes to Canadian tax laws that would establish a new tax regime for income trusts and other "specified investment flow-through" entities ("**SIFTS**"). On June 22, 2007, Bill C-52 was enacted which substantially implemented the

October 31, 2006 proposals pursuant to which SIFTs will be liable for tax at a rate consistent with the taxes currently imposed on corporations commencing on January 1, 2011, provided that the SIFT experiences only “normal growth” and no “undue expansion” before then, in which case the tax could be imposed prior to the January 1, 2011 deadline. The removal of the tax advantage that was previously afforded to Canadian energy income trusts may have the effect of benefiting companies such as Terra Energy when competing for the acquisition of assets.

Another trend currently affecting the oil and gas industry is the impact on capital markets caused by investor uncertainty in the North American economy. The capital market volatility in Canada has also been affected by uncertainties surrounding the economic impact that the Kyoto Protocol, and other environmental initiatives, will have on the sector and by the October 25, 2007 proposal of the Alberta government relating to the new royalty framework in Alberta (the “NRF”). The impact of the NRF is still being determined and will vary from one company to another based on the percentage of production in Alberta and the applicable commodity mix and depths of production, among other things. The announcement by the Alberta government may also impact upon investor sentiment to investment in the province of Alberta. The amount and degree of these impacts have yet to be determined; however, as Terra Energy’s assets are primarily in British Columbia, this impact will be minimal.

STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION

Petroleum and Natural Gas Reserves

All of Terra Energy’s oil and gas properties have been evaluated by GLJ Petroleum Consultants Ltd. (“GLJ”).

GLJ used cash flow values obtained from the Reserve Reports to prepare a corporate evaluation dated March 3, 2008 of Terra Energy’s oil and gas reserves (the “GLJ Report”) which evaluation is effective December 31, 2007 both on a before and after tax basis. The GLJ Report is in respect of all of Terra Energy’s oil and gas properties. In preparing its report, GLJ obtained basic information from Terra Energy, which included land data, well information, geological information, reservoir studies, estimates of on-stream dates, contract information, current hydrocarbon product prices, operating cost data, capital budget forecasts, financial data and future operating plans. Other engineering, geological or economic data required to conduct the evaluation and upon which the GLJ Report is based, was obtained from public records, other operators, and from GLJ’s non-confidential files. The extent and character of ownership and the accuracy of all factual data supplied for the independent evaluation, from all sources, was accepted by GLJ as represented.

The following tables set forth certain information relating to the oil and natural gas reserves of the Corporation’s properties and the present value of the estimated future net cash flow associated with such reserves as at December 31, 2007 which numbers may vary slightly from those presented in the GLJ Report, due to rounding. Also due to rounding, certain columns may not add exactly. The information set forth below is derived from the GLJ Report which reports have been prepared in accordance with the standards contained in the COGE Handbook and the reserves definitions contained in National Instrument 51-101 – Standards of Disclosure For Oil and Gas Activities (“NI 51-101”). **All evaluations and reviews of future net cash flow are stated prior to any provision for interest costs or general and administrative costs and after the deduction of estimated future capital expenditures for wells to which reserves have been assigned. It should not be assumed that the estimated future net cash flow shown below is representative of the fair market value of the Corporation’s properties. There is no assurance that such price and cost assumptions will be attained and variances could be material. The recovery and reserve estimates of crude oil, NGLs and natural gas reserves provided herein are estimates only and**

there is no guarantee that the estimated reserves will be recovered. Actual crude oil, NGLs and natural gas reserves may be greater than or less than the estimates provided herein.

In accordance with the requirements of NI 51-101, attached hereto are the following appendices:

Appendix A: Report on Reserves Data by Independent Qualified Reserves Evaluator or Auditor in Form 51-101F2

Appendix B: Report of Management and Directors on Oil and Gas Disclosure in Form 51-101F3

Definitions used for reserve categories in the GLJ Report are attached as Appendix C hereto.

**SUMMARY OF OIL AND GAS RESERVES
as of December 31, 2007**

FORECAST PRICES AND COSTS

RESERVES CATEGORY	RESERVES								
	LIGHT AND MEDIUM OIL		NATURAL GAS		NATURAL GAS LIQUIDS		TOTAL OIL EQUIVALENT		
	Gross (mdbl)	Net (mdbl)	Gross (mmcf)	Net (mmcf)	Gross (mdbl)	Net (mdbl)	Gross (mdbl)	Net (mdbl)	
Proved									
Developed Producing	607	564	29,501	21,802	1,343	1,037	6,868	5,235	
Developed Non-Producing	111	95	16,692	12,594	313	247	3,205	2,440	
Undeveloped	0	0	3,739	2,611	119	90	742	525	
Total Proved	718	659	49,932	37,007	1,775	1,374	10,815	8,201	
Probable	307	279	30,213	22,764	1,010	794	6,352	4,867	
Total Proved Plus Probable	1,025	938	80,145	59,771	2,785	2,168	17,167	13,068	

Note: numbers may not add due to rounding

**SUMMARY NET PRESENT VALUES OF FUTURE NET REVENUE
as of December 31, 2007**

FORECAST PRICES AND COSTS

RESERVES CATEGORY	BEFORE INCOME TAXES DISCOUNTED AT (%/YEAR)					AFTER INCOME TAXES DISCOUNTED AT (%/YEAR)					UNIT VALUE BEFORE INCOME TAX DISCOUNTED AT 10%/YEAR \$/boe
	0 (M\$)	5 (M\$)	10 (M\$)	15 (M\$)	20 (M\$)	0 (M\$)	5 (M\$)	10 (M\$)	15 (M\$)	20 (M\$)	
	Proved										
Developed Producing	146,506	120,085	103,195	91,358	82,529	139,153	114,452	98,689	87,636	79,380	19.71
Developed Non-Producing	76,169	53,118	41,383	33,927	28,663	55,749	38,298	29,484	23,922	20,022	16.96
Undeveloped	11,074	7,616	5,569	4,232	3,296	8,068	5,387	3,797	2,760	2,039	10.61
Total Proved	233,749	180,819	150,147	129,517	114,488	202,970	158,137	131,970	114,318	101,441	18.31
Probable	150,502	90,899	63,675	47,601	37,349	110,509	65,956	45,313	33,466	25,769	13.02
Total Proved Plus Probable	384,251	271,718	213,522	177,118	151,837	313,479	224,093	177,283	147,784	127,210	16.34

**TOTAL FUTURE NET REVENUE
(UNDISCOUNTED)
as of December 31, 2007**

FORECAST PRICES AND COSTS

<u>Reserves Category</u>	<u>Revenue (M\$)</u>	<u>Royalties (M\$)</u>	<u>Operating Costs (M\$)</u>	<u>Development Costs (M\$)</u>	<u>Well Abandonment Costs (M\$)</u>	<u>Future Net Revenue Before Income Taxes (M\$)</u>	<u>Income Taxes (M\$)</u>	<u>Future Net Revenue After Income Taxes (M\$)</u>
Proved Reserves	553,106	114,749	181,852	18,762	3,994	233,749	30,779	202,970
Probable	<u>348,350</u>	<u>69,934</u>	<u>104,340</u>	<u>22,225</u>	<u>1,349</u>	<u>150,502</u>	<u>39,993</u>	<u>110,509</u>
Proved Plus Probable Reserves	<u>901,456</u>	<u>184,683</u>	<u>286,192</u>	<u>40,987</u>	<u>5,343</u>	<u>384,251</u>	<u>70,772</u>	<u>313,479</u>

**FUTURE NET REVENUE
BY PRODUCTION GROUP
as of December 31, 2007**

FORECAST PRICES AND COSTS

<u>RESERVES CATEGORY</u>	<u>PRODUCTION GROUP</u>	<u>FUTURE NET REVENUE BEFORE INCOME TAXES & ARTC (discounted at 10%/year) (M\$)</u>	<u>UNIT VALUE BEFORE INCOME TAXES (discounted at 10% year) (\$/BOE)</u>
Proved Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	19,638	27.71
	Natural Gas (including by- products but excluding solution gas from oil wells)	130,062	17.47
	Non-conventional Oil and Gas Activities	445	9.54
	Total	150,147	18.31
Proved Plus Probable Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	27,238	23.94
	Natural Gas (including by- products but excluding solution gas from oil wells)	185,000	15.78
	Non-conventional Oil and Gas Activities	1,285	6.27
	Total	213,523	16.34

RESERVE REPORT PRICING ASSUMPTIONS

Forecast Prices and Costs Employed by GLJ - December 31, 2007

GLJ employed the following pricing, exchange rate and inflation rate assumptions in estimating Terra Energy's reserves data using forecast prices and costs as of December 31, 2007

FORECAST PRICES USED IN PREPARING RESERVES DATA

GLJ Petroleum Consultants

Crude Oil and Natural Gas Liquids

Price Forecast

Effective December 31, 2007

Year	WTI	Brent	Edmonton	Alberta	Alberta	Sask	Edmonton	Edmonton	Edmonton	Inflation	US/CAN	
	Crude	Crude	Light	Lloyd	Heavy	Cromer	Cond. &	Edmonton	Edmonton			
	Oil	Oil	Oil	Blend	Crude	Medium	Natural	Propane	Butanes	Pentaines	Rate	
	\$/bbl	\$/bbl	\$/bbl	\$/bbl	\$/bbl	\$/bbl	\$/bbl	\$/bbl	\$/bbl	\$/bbl	\$/US\$/CAN	
	(1)	(2)	(3)	(4)	(5)	(6)				%		
Forecast												
2008	\$92.00	\$90.50	\$91.10	\$63.77	\$54.02	\$79.26	\$22.73	\$58.30	\$72.88	\$92.92	2.0	\$1.000
2009	\$88.00	\$86.50	\$87.10	\$60.97	\$51.61	\$75.78	\$25.49	\$55.74	\$69.68	\$88.84	2.0	\$1.000
2010	\$84.00	\$82.50	\$83.10	\$58.17	\$49.19	\$72.30	\$25.66	\$53.18	\$66.48	\$84.76	2.0	\$1.000
2011	\$82.00	\$80.50	\$81.10	\$56.77	\$47.98	\$70.56	\$25.66	\$51.90	\$64.88	\$82.72	2.0	\$1.000
2012	\$57.50	\$80.50	\$81.10	\$56.77	\$47.98	\$70.56	\$25.66	\$51.90	\$64.88	\$82.72	2.0	\$1.000
2013	\$82.00	\$80.50	\$81.10	\$57.58	\$49.04	\$70.56	\$25.66	\$51.90	\$64.88	\$82.72	2.0	\$1.000
2014	\$82.00	\$80.50	\$81.10	\$58.39	\$50.09	\$70.56	\$26.35	\$51.90	\$64.88	\$82.72	2.0	\$1.000
2015	\$82.00	\$80.50	\$81.10	\$59.20	\$51.15	\$70.56	\$26.94	\$51.90	\$64.88	\$82.72	2.0	\$1.000
2016	\$82.02	\$80.52	\$81.12	\$60.03	\$52.21	\$70.57	\$27.52	\$51.91	\$64.89	\$82.74	2.0	\$1.000
2017	\$83.66	\$82.16	\$82.76	\$61.24	\$53.29	\$72.00	\$28.11	\$52.97	\$66.21	\$84.42	2.0	\$1.000
2018	\$85.34	\$83.81	\$84.42	\$62.47	\$54.36	\$73.44	\$28.68	%54.03	\$67.54	\$86.11	2.0	\$1.000
Thereafter	2.0%/y	2.0%/y	2.0%/y	2.0%/y	2.0%/y	2.0%/y	2.0%/y	2.0%/y	2.0%/y	2.0%/y	2.0%/y	2.0%/y

- (1) West Texas Intermediate at Cushing Oklahoma 40 degrees API/0.5% sulphur
- (2) North Sea Brent Blend 37 degrees API/1.0% sulphur
- (3) Edmonton Light Sweet 40 degrees API, 0.5% sulphur
- (4) Lloyd Blend Medium 25 degrees API/2.1% sulphur at Hardisty Alberta
- (5) Heavy crude oil 12 degrees API at Hardisty Alberta (after deduction of blending costs to reach pipeline quality)
- (6) Midale Cromer crude oil 29 degrees API, 2.0% sulphur

FORECAST PRICES USED IN PREPARING RESERVES DATA

GLJ Petroleum Consultants

Natural Gas and Sulphur

Price Forecast

Effective December 31, 2007

Year	NYMEX	Alberta	Alberta	Alberta	Alberta	Sask.	Sask.	British	British
	Futures	AECO	Average	Aggregator	Spot	Prov.	Spot	Columbia	Columbia
	Contract	Spot	Plantgate	Plantgate	Sales	Gas	Sales	Westcoast	Spot
	\$/mmbtu	\$/mmbtu	\$/mmbtu	\$/mmbtu	\$/mmbtu	\$/mmbtu	\$/mmbtu	\$/mmbtu	\$/mmbtu
	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Forecast									
2008	\$7.50	\$6.75	\$6.53	\$6.17	\$6.44	\$6.57	\$6.69	\$6.55	\$6.35
2009	\$8.25	\$7.55	\$7.33	\$6.99	\$7.24	\$7.37	\$7.49	\$7.35	\$7.15
2010	\$8.25	\$7.60	\$7.37	\$7.11	\$7.31	\$7.44	\$7.54	\$7.40	\$7.20
2011	\$8.25	\$7.60	\$7.37	\$7.11	\$7.31	\$7.44	\$7.54	\$7.40	\$7.20
2012	\$8.25	\$7.60	\$7.37	\$7.11	\$7.31	\$7.44	\$7.54	\$7.40	\$7.20
2013	\$8.25	\$7.60	\$7.37	\$7.11	\$7.31	\$7.44	\$7.54	\$7.40	\$7.20
2014	\$8.45	\$7.80	\$7.57	\$7.30	\$7.51	\$7.64	\$7.74	\$7.60	\$7.40
2015	\$8.62	\$7.97	\$7.74	\$7.47	\$7.67	\$7.80	\$7.91	\$7.77	\$7.57
2016	\$8.79	\$8.14	\$7.91	\$7.63	\$7.84	\$7.97	\$8.05	\$7.94	\$7.73
2017	\$8.96	\$8.31	\$8.08	\$7.79	\$8.01	\$8.14	\$8.22	\$8.11	\$7.90
2018	\$9.14	\$8.48	\$8.24	\$7.95	\$8.17	\$8.30	\$8.38	\$8.27	\$8.06
Thereafter	2.0%/y	2.0%/y	2.0%/y	2.0%/y	2.0%/y	2.0%/y	2.0%/y	2.0%/y	2.0%/y

- (1) This forecast also applies to direct sales contracts and the Alberta gas reference price used in the crown royalty calculations.

Terra Energy's weighted average realized sales prices for the year ended December 31, 2007 were \$72.88/bbl for crude oil, \$6.43/mcf for natural gas and \$37.86/bbl for natural gas liquids.

RECONCILIATION OF CHANGES IN RESERVES

Reserves Reconciliation

The following table sets forth a reconciliation of Terra Energy's total net proved, probable and proved plus probable reserves as at December 31, 2007 against such reserves as at December 31, 2006 based on forecast price and cost assumptions

Factors	LIGHT AND MEDIUM CRUDE OIL			ASSOCIATED AND NON-ASSOCIATED GAS			NATURAL GAS LIQUIDS			BOE		
	Gross Proved (mdbl)	Gross Probable (mdbl)	Gross Proved Plus Probable (mdbl)	Gross Proved (mdbl)	Gross Probable (mdbl)	Gross Proved Plus Probable (mdbl)	Gross Proved (mdbl)	Gross Probable (mdbl)	Gross Proved Plus Probable (mdbl)	Gross Proved (mdbl)	Gross Probable (mdbl)	Gross Proved Plus Probable (mdbl)
Dec. 31, 2006	830	320	1,150	49,308	32,891	82,199	833	428	1,261	9,882	6,229	16,111
Discoveries	-	-	-	-	-	-	-	-	-	-	-	-
Extensions and Improved Recovery	-	-	-	11,088	3,012	14,100	165	51	216	2,013	553	2,566
Infill Drilling	-	-	-	-	215	215	-	1	1	-	36	36
Technical Revisions	(29)	(14)	(43)	(3,932)	(5,460)	(9,392)	1,054	534	1,588	368	(389)	(21)
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	(1)	-	(1)	(1,240)	(302)	(1,543)	(18)	(4)	(22)	(226)	(54)	(280)
Economic Factors	17	1	18	(254)	(143)	(397)	(4)	-	(4)	(29)	(23)	(52)
Production	(99)	-	(99)	(5,038)	-	(5,038)	(255)	-	(255)	(1193)	-	(1193)
Dec. 31, 2007	718	307	1,025	49,932	30,213	80,145	1,775	1,010	2,785	10,815	6,352	17,167

ADDITIONAL INFORMATION RELATING TO RESERVES DATA

Undeveloped Reserves

The following discussion generally describes the basis on which Terra Energy attributes proved and probable undeveloped reserves and its plans for developing those undeveloped reserves.

Proved Undeveloped Reserves

Proved undeveloped reserves are generally those reserves related to wells that have been tested and not yet tied-in, wells drilled near the end of the fiscal year or wells further away from Terra Energy gathering systems. In addition, such reserves may relate to planned infill drilling locations. The majority of these reserves are planned to be on stream within a two year timeframe.

The majority of Terra Energy's proved undeveloped reserves are in the Corporation's core area of Fort St. John. In Sunrise (which represents approximately 65% of the total proved undeveloped reserves of the Corporation), Terra Energy has budgeted for the construction of a pipeline to connect it's Sunrise field to Terra's new compressor station at Tower. The proposed 8 inch pipeline will be able to bring on all remaining gas currently shut-in due to lack of capacity at the West Doe gas plant. The expected completion of the pipeline is scheduled for Q3 – 2008.

In Tower (which represents approximately 10% of the total proved undeveloped reserve value of the Corporation), Terra Energy has budgeted costs for 2008 to drill, complete and tie-in these reserves through Terra's new compressor station located in Tower. In Sunrise (Eight Mile) (which represents approximately 19.4% of the total proved undeveloped reserve value of the Corporation), Terra Energy

has signed a firm service agreement for 3.25 mmcf/d (525 boe/d) where a third party has constructed a processing and gathering system in Sunrise. The facility was commissioned in February of 2008.

In Boudreau (which represents approximately 8% of the total proved undeveloped reserve value of the Corporation), Terra Energy has budgeted for a development drill in 2008 in an existing gas pool in order to bring these reserves on production in 2008.

In Dimsdale (which represents approximately 4% of the total proved undeveloped reserve value of the Corporation), Terra Energy is in ongoing negotiations with land owners and regulators concerning the construction of infrastructure necessary to produce the existing proved undeveloped reserves. As negotiations are ongoing and regulatory approvals have yet to be obtained, Terra Energy anticipates an onstream date for these reserves sometime in 2008.

The following table sets forth the volumes of gross proved undeveloped reserves that were first attributed in each of Terra Energy's three most recent financial years and before that, in the aggregate:

PROVED UNDEVELOPED RESERVES				
Year	Light and Medium Crude Oil	Heavy Crude Oil	Associated and Non-Associated Natural Gas	Natural Gas Liquids
December 31	(mboe)	(mboe)	(mmcf)	(mboe)
Prior Years ⁽¹⁾	181	0	11,960	183
2005	204	0	22,783	237
2006	118	0	21,744	228
2007	111	0	20,569	434

Note:

(1) Terra Energy became a publicly traded Corporation on January 30, 2004 through the Terra Energy Amalgamation. Terra Energy's predecessor companies did not obtain engineering reports on 100% of their assets and as such, Terra Energy is only able to present proved undeveloped reserves for a five year period.

Probable Undeveloped Reserves

Probable undeveloped reserves are generally those reserves tested or indicated by analogy to be productive, infill drilling locations and lands contiguous to production. The majority of these reserves are planned to be on stream within a two year timeframe.

The majority of Terra Energy's probable undeveloped reserves are related to drilling locations identified by GLJ and Terra Energy Corp. as locations which are highly prospective for natural gas and / or crude oil discoveries.

In Tower (which represents approximately 22% of the probable undeveloped reserve value of the Corporation), Terra Energy intends to drill one follow-up location in 2008 as have been identified by GLJ as a probable location. Drilling is expected to commence in Q3-2008 with an expected onstream date of Q4-2008, subject to regulatory and land owner approvals.

In Sunrise (which represents approximately 22% of the probable undeveloped reserve value of the Corporation), Terra Energy intends to drill two follow up locations in 2008 as have been identified by GLJ as probable locations. These locations are scheduled to be drilled in Q3-2008 with an expected onstream date of Q4-2008, subject to regulatory and land owner approvals.

In Boudreau (which represents approximately 21.0% of the probable undeveloped reserve value of the Corporation) Terra Energy has identified two drilling locations which are follow-up drilling locations from Terra Energy's discoveries in 2006. Upon drilling the two locations in Boudreau, Terra Energy has adequate infrastructure in place to tie-in new natural gas volumes which the Corporation may discover.

The remaining probable undeveloped reserves relate to reserves associated with small working interest drilling locations, producing wells which may, depending on economics and actual well production results, produce additional reserves above and beyond the existing proved reserves.

The following table sets forth the volumes of probable undeveloped reserves that were first attributed in each of Terra Energy's three most recent financial years and, before that, in the aggregate:

PROBABLE UNDEVELOPED RESERVES				
Year	Light and Medium Crude Oil	Heavy Crude Oil	Associated and Non-Associated Natural Gas	Natural Gas Liquids
December 31	(mboe)	(mboe)	(mmcf)	(mboe)
Prior Years ⁽¹⁾	185	0	15,733	110
2005	269	0	20,040	256
2006	319	0	33,062	429
2007	307	0	30,221	1,010

Note:

(1) Terra Energy became a publicly traded Corporation on January 30, 2004 through the Terra Energy Amalgamation. Terra Energy's predecessor companies did not obtain engineering reports on 100% of their assets and as such, Terra Energy is only able to present proved undeveloped reserves for a five year period.

Significant Factors or Uncertainties Affecting Reserves Data

The process of estimating reserves is complex. It requires significant judgments and decisions based on available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. The reserve estimates contained herein are based on current production forecasts, commodity prices and economic conditions. Terra Energy's reserves are evaluated by GLJ who is an independent engineering firm.

Estimates made are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, commodity prices, economic conditions and governmental restrictions. Although every reasonable effort is made to ensure that reserve estimates are accurate, reserve estimation is an inferential science. Terra Energy's actual production, revenues, taxes, development and operating expenditures with respect to its reserves may vary from such estimates, and such variances could be material.

Future Development Costs

The following table outlines development costs deducted in the estimation of future net revenue attributable to proved reserves (using forecast prices and costs) and proved plus probable reserves (using forecast prices and costs) to those properties evaluated in the GLJ Report.

	Forecast Prices and Costs	
	Proved Reserves (M\$)	Proved Plus Probable Reserves (M\$)
2008	11,396	28,168
2009	4,412	9,129
2010	0	624
2011	0	0
2012	988	946
Remaining Years	1,968	2,121
Total Undiscounted	18,764	40,988
Total Discounted at 10% per year	16,166	36,651

OTHER OIL AND GAS INFORMATION

Oil and Gas Assets

The following discussion outlines the Corporation's important properties, plants, facilities and installations:

Boudreau (B.C.)

The Boudreau 14-13-84-21 W6M sour oil / gas facility is located approximately 25 km west of Fort St. John and was constructed by Terra Energy in the 4th quarter of 2004. The Company owns 100% of this facility. The Boudreau facility has compression, dehydration, oil / water separation and water disposal handling. The oil is trucked from the facility and the gas is compressed and delivered to the Spectra raw gas gathering system for processing at the Spectra McMahon Gas Plant. In 2006, Terra Energy constructed a "line-loop" pipeline connecting the Corporation's underutilized Red Creek facility to the new natural gas discovery wells in Boudreau. With the completion of the pipeline, the majority of Terra Energy's Boudreau production is processed at the Red Creek facility.

Eagle (B.C.)

Terra Energy operates and has a 40.16% ownership interest in a 2.9 mmcf/d gas facility located at 6-19-85-18 W6M in the Eagle area. The facility consists of desiccant dehydration and compression facilities. The facility is located approximately 13 km north of Fort St. John.

Red Creek (B.C.)

The Red Creek 3-10-85-21 W6M facility is located approximately 35 km west of Fort St. John and is equipped with compression, dehydration, oil separation and water injection. In 2005, a new 4 inch pipeline was constructed to tie-in two new Baldonnel development wells to the underutilized Red Creek facility. Additional drilling added four additional Baldonnel wells. In December 2005, a new 815 horsepower compressor was added to handle this new and future production from the area south of Red Creek. The compressor is capable of handling 8 mmcf/d and with additional pipeline capacity up

to 10 mmcf/d. The existing low pressure compressor continues to handle the solution gas and low pressure gas from the Red Creek field. In September 2007, a 19.5 km gathering line connecting the East Boudreau gas field to Red Creek was commissioned. The Corporation owns 100% of this facility.

Stoddart (B.C.)

The Stoddart Facility at 14-26-85-20W5 is located approximately 25 km north-west of Fort St. John. The facility consists of an oil battery and gas compression. The battery is pipeline connected to an oil pipeline and the natural gas is delivered to the Spectra raw gas gathering system for delivery to the Spectra McMahon Gas facility.

Tower (B.C.)

The Tower 9-28-81-17 W6M sour dehydration and compression facility is located approximately 24 km south-east of Fort St. John and was constructed by Terra Energy in the 4th quarter of 2007. The Corporation owns 100% of this facility. Initially, four wells (eight productive zones) were tied into the facility. Addition wells will be tied in from the North Eight Mile and Sunrise areas in 2008.

The Tower Facility has installed capacity of 14 mmcf/d and may be enlarged to 20 mmcf/d with the addition of a second compressor. The facility has compression, dehydration, separation facilities and tankage for field condensate and water. The facility is connected to the Spectra "South Peace Pipeline" and delivers gas to the Spectra. Terra Energy has a five year firm service agreement with Spectra.

The Tower facility is also connected to the Septimus and Wilder fields via a six inch 38 km pipeline. It allows excess production in the Tower area to be delivered to the Terra Energy operated Wilder Facility. If the Wilder Facility becomes full, the pipeline may be reversed and gas from the Septimus and Wilder areas may be delivered to the Tower facility.

Wilder (B.C.)

The Wilder 10-34-82-20 W6M gas facility is located 20 km southeast of Fort St. John and is equipped with compression and dehydration. A 17 km pipeline was constructed in the first quarter of 2006 to tie-in wells located at Septimus that are completed in the Halfway and Boundary Lake formations. In the first half of 2007, a 19 km pipeline was constructed from the Tower area to Septimus to interconnect the Tower, Septimus and Wilder fields. The Wilder facility has capacity of approximately 10 mm/d and is owned 100% by the Corporation. This facility processes Terra Energy owned production plus third party gas and is in a key area for additional third party processing from the Montney resource play.

Dimsdale (AB)

The Dimsdale facility is located 15 km west of Grande Prairie, Alberta and is equipped with separation and metering facilities and compression. The gas is tied into the Wembley gas plant where the gas is processed and shipped to sales. This infrastructure will be utilized with production obtained from the two new wells Terra Energy drilled in 2005.

Wells

As at December 31, 2007, the Corporation had an interest in 101 gross (62 net) producing and 147 gross (63.4 net) non-producing oil, natural gas and other wells as follows:

Wells	PRODUCING				NON-PRODUCING					
	Oil		Natural Gas		Oil		Natural Gas		Other	
	Gross ⁽¹⁾	Net ⁽²⁾	Gross	Net	Gross	Net	Gross	Net	Gross	Net
B.C.	21	17	50	37	8	6.0	60	17.8	16	12.7
Alberta	11	3	16	5	16	8.4	23	8.5	17	9.1
Sask.	3	0	0	0	6	0.8	0	0	1	0.1
TOTAL WELLS	35	20	66	42	30	15.2	83	26.3	34	21.9

Notes:

- (1) "Gross" wells means the number of wells in which Terra Energy has a working interest or a royalty interest that may be convertible to a working interest.
- (2) "Net" wells means the aggregate number of wells obtained by multiplying each gross well by Terra Energy's percentage working interest therein.

Properties with No Attributed Reserves

The following table sets forth the gross and net acres of unproved properties held by the Corporation as at December 31, 2007 and the net area of unproved property for which the Corporation expects its rights to explore, develop and exploit to expire during the next year.

LOCATION	UNPROVED PROPERTIES (acres)		
	Gross ⁽¹⁾	Net ⁽²⁾	Net Area to Expire by December 31, 2008
Alberta	28,640	15,695	768
Saskatchewan	3,119	3,037	1,126
British Columbia	145,832	126,669	35,240
TOTAL	177,591	145,501	37,134

Notes:

- (1) "Gross Acres" are the total acres in which Terra Energy has or had an interest.
- (2) "Net Acres" is the aggregate of the total acres in which Terra Energy has or had an interest multiplied by Terra Energy's working interest percentage held therein.

There are no costs or work commitments associated with Terra Energy's non-producing properties except for ongoing Crown lease commitments.

The undeveloped land holdings of the Corporation were evaluated as at December 31, 2006 by Seaton-Jordan & Associates Ltd. ("**Seaton-Jordan**"). The estimated value of Terra Energy's net undeveloped land holdings is approximately \$26.3 million as at December 31, 2007. This valuation represents a decrease of 12.3% over last year's valuation of undeveloped land prepared by Seaton-Jordan.

Forward Contracts

Terra Energy may use certain financial instruments to hedge its exposure to commodity price fluctuations on a portion of its crude oil and natural gas production. As at December 31, 2007, Terra Energy had the following hedges in place:

Contract Type	Floor Price	Ceiling Price	Volumes Per Day	Contract Term
Financial	Sell \$92.00 per Bbl	N/A	100 Bbls	January 1, 2008 to December 31, 2008
Financial	Buy \$8.70 per GJ	N/A	3,000 GJ	January 1, 2008 – March 31, 2008
Financial	Sell \$8.05 per GJ	N/A	1,000 GJ	November 1, 2007 to March 31, 2008
Financial	Sell \$7.45 per GJ	N/A	1,000 GJ	April 1, 2007 to March 31, 2008
Financial	Buy \$8.00 per GJ	\$8.60 per GJ	1,000 GJ	November 1, 2007 to March 31, 2008
Financial	Sell \$8.00 per GJ	\$8.60 per GJ	1,000 GJ	November 1, 2007 to March 31, 2008
Financial	Sell \$7.95 per GJ	N/A	1,000 GJ	April 1, 2007 to March 31, 2008
Financial	Buy \$8.20 per GJ	\$9.21 per GJ	1,000 GJ	November 1, 2007 to March 31, 2008
Financial	Buy \$8.25 per GJ	\$9.40 per GJ	1,000 GJ	November 1, 2007 to March 31, 2008
Financial	Buy \$8.50 per GJ	\$9.00 per GJ	1,000 GJ	November 1, 2007 to March 31, 2008
Financial	Sell \$8.20 per GJ	\$9.21 per GJ	1,000 GJ	November 1, 2007 to March 31, 2008
Financial	Sell \$8.25 per GJ	\$9.40 per GJ	1,000 GJ	November 1, 2007 to March 31, 2008
Financial	Sell \$8.50 per GJ	\$9.00 per GJ	1,000 GJ	November 1, 2007 to March 31, 2008

Contract Type	Contract Amount	CAD/USD Exchange Rate	Settlement Amount	Settlement Date
Financial	\$74,524 USD	\$1.0584	\$78,876 CAD	February 22, 2008
Financial	\$4,200,000 USD	\$1.0621	\$4,460,820 CAD	February 22, 2008

The fair market value of these contracts was recognized as a liability in the Corporation's audited financial statements in the amount of \$567,483 at December 31, 2007.

Additional Information Concerning Abandonment and Reclamation Costs

Terra Energy estimates well abandonment and reclamation costs for surface leases, wells and facilities based on its previous experience, current regulations, costs, technology and industry standards area by area. Such costs are included in the GLJ Report as deductions in arriving at future net revenue. The expected total abandonment costs for wells and facilities are summarized in the net of estimated salvage value calculated without discount and using a discount rate of 10% is as follows:

	Forecast (M\$) Pricing			
	Proved NPV 0%	Proved NPV 10%	Proved Plus Probable NPV 0%	Proved Plus Probable NPV 10%
Wells with reserves assigned	3,994	1,197	5,343	1,173
Wells & Facilities with no reserves assigned	2,418	725	2,418	725
Total abandonment and reclamation cost provision	<u>6,412</u>	<u>1,922</u>	<u>7,761</u>	<u>1,898</u>
Portion forecast to be paid during the next three years	<u>538</u>	<u>476</u>	<u>314</u>	<u>277</u>

Notes: (1) Abandonments and disconnect costs were estimated by GLJ and are included in the GLJ Report for wells assigned reserves.

(2) The Corporation has estimated the timing and costs associated with the abandonment and reclamation for wells with no reserves assigned. These costs were not included in the GLJ Report.

Income Tax Horizon

At December 31, 2007, Terra Energy had estimated income tax deductions of approximately \$138 million available to reduce future taxable income. Terra Energy does not expect to incur material current income taxes for the year ended December 31, 2008.

The following table summarizes Terra Energy's property acquisition costs, exploration costs and development costs incurred during the financial year ended December 31, 2007.

Exploration	\$14,058,867
Development	\$1,995,239
Undeveloped Land	\$1,221,781
Geological / Geotechnical	\$2,555,565
Facilities	\$18,250,363
Other Assets	\$1,088,394
Total Capital Expenditures	\$39,170,209
Net Property Acquisitions	(\$3,583,990)
Total Capital Expenditures	\$35,586,219

Exploration and Development Activities

The following table summarizes the results of exploration and development activities during the financial year ended December 31, 2007.

	<u>Gross⁽¹⁾</u>	<u>Net⁽²⁾</u>
Development Wells		
Gas	2.0	0.5
Oil	-	-
Dry	-	-
Exploratory Wells		
Gas	4.0	3.6
Oil	-	-
Dry	1.0	1.0
Total Wells	<u>7.0</u>	<u>5.1</u>

Notes:

- (1) "Gross" wells means the number of wells in which Terra Energy has a working interest or a royalty interest that may be convertible to a working interest.
- (2) "Net" wells means the aggregate number of wells obtained by multiplying each gross well by Terra Energy's percentage working interest therein.

Production Estimates

The following discloses the estimated average daily production of Terra Energy through fiscal 2008 by product type associated with the first year of the future net revenue estimates reported in the GLJ Report effective December 31, 2007.

Field	Light and Medium Crude Oil (bbls/d)	Natural Gas (mcf/d)	Natural Gas Liquids (bbls/d)	BOE (boe/d)	%
Boudreau, British Columbia	50	7300	249	1,516	25%
Tower, British Columbia	-	8513	537	1,955	33%
Other	289	11,773	261	2,512	42%
Total	339	27,586	1,047	5,983	100%

	Light and Medium Crude Oil (bbl/d)	Natural Gas (mcf/d)	Natural Gas Liquids (bbl/d)	Combined BOE (boe/d)
Proved				
Developed producing				
Boudreau	47	6,595	225	1371
Tower	0	7,149	449	1,640
Other	213	3,710	165	996
Total	260	17,453	839	4,007
Developed non-producing				
Boudreau	0	0	0	0
Tower	0	330	21	76
Other	56	4,048	69	800
Total	56	4,378	90	876
Developed				
Boudreau	0	0	0	0
Tower	0	0	0	0
Other	0	1,417	1	237
Total	0	1,417	1	237
Total Proved	316	23,248	930	5,120
Probable				
Boudreau	3	706	24	145
Tower	0	1,034	67	239
Other	20	2,599	26	478
Total Probable	22	4,338	117	863
Total proved plus probable	339	27,586	1,047	5,983

Production History

The following table summarizes Terra Energy's average daily sales production volumes before deduction of royalties, for the periods indicated.

	2007				
	Year ended December 31, 2007	Q4 Oct. - Dec.	Q3 July - Sept.	Q2 April - June	Q1 Jan. - March
Oil (bbl/d)	274	229	274	283	311
Natural Gas Liquids (bbl/d)	695	1,004	811	505	452
Natural gas (mcf/d)	13,782	15,743	15,728	13,297	10,278
Total (boe/d)	3,266	3,857	3,706	3,005	2,476

Netback History

The following table sets forth information respecting average net product prices received, royalties paid, operating expenses and netbacks received by the Corporation in respect of the Corporation's production of crude oil and natural gas for the periods indicated.

	2007				
	Year ended December 31, 2007	Q4 Oct. - Dec.	Q3 July - Sept.	Q2 April - June	Q1 Jan. - March
Selling prices					
Oil (\$/bbl)	72.88	81.44	76.27	76.51	66.38
Natural gas (\$/mcf)	6.43	6.30	5.15	7.28	7.62
Natural gas liquids (\$/bbl)	37.86	36.59	40.75	37.70	36.00
Royalties					
Oil (\$/bbl)	7.88	6.60	9.40	7.23	8.08
Natural gas (\$/mcf)	1.48	1.42	1.20	1.54	1.78
Natural gas liquids (\$/bbl)	8.52	8.78	8.94	10.56	8.62
Production expenses ⁽¹⁾					
Oil (\$/bbl)	12.88	12.12	13.05	12.75	14.00
Natural gas (\$/mcf)	2.15	2.02	2.18	2.13	2.33
Natural gas liquids (\$/bbl)	12.88	12.12	13.05	12.75	14.00
Field netbacks					
Oil (\$/bbl)	52.12	62.72	53.82	56.53	44.30
Natural gas (\$/mcf)	2.80	2.86	1.77	3.61	3.51
Natural gas liquids (\$/bbl)	16.46	15.69	18.76	14.39	13.38

Note:

(1) Operating expenses include mineral and surface lease rentals, property taxes and expenses related to the operation and maintenance of wells, production facilities and gathering systems.

Production Volume by Field

The following table discloses for each significant field, and in total, Terra Energy's sales production volumes for the financial year ended December 31, 2007 for each product type.

Field	Light and Medium Crude Oil (bbls/d)	Natural Gas (mcf/d)	Natural Gas Liquids (bbls/d)	BOE (boe/d)	%
Red Creek, British Columbia	63	3,528	217	868	27%
Boudreau, British Columbia	46	2,273	70	494	15%
Septimus, British Columbia	-	897	54	203	6%
Tower, British Columbia	-	3,572	222	817	25%
Other	165	3,512	132	884	27%
Total	274	13,782	695	3,266	100%

RISK FACTORS

The business of exploring for, developing and producing oil and natural gas reserves is inherently risky. Oil and natural gas operations involve many risks which even a combination of experience and knowledge and careful evaluation may not be able to overcome. There is no assurance that further commercial quantities of oil and natural gas will be discovered or acquired by Terra Energy.

Uncertain Discovery of Viable Commercial Prospects

The Corporation's future success may be dependent upon its ability to economically locate commercially viable oil or gas deposits. The Corporation can make no representations, warranties or guaranties that it will be able to consistently identify viable prospects, or that such prospects will be commercially exploitable. An inability of the Corporation to consistently identify and exploit commercially viable hydrocarbon deposits would have a material and adverse effect on the Corporation's business and financial position. Exploratory drilling is subject to numerous risks, including the risk that no commercially productive oil and gas reservoirs will be encountered. The cost of drilling, completing and operating wells is often uncertain, and drilling operations may be curtailed, delayed or canceled as a result of a variety of factors, including unexpected formation and drilling conditions, pressure or other irregularities in formations, blowouts, equipment failures or accidents, as well as weather conditions, compliance with governmental requirements and/or shortages or delays in the delivery of equipment. The inability to successfully locate and drill wells that will economically produce commercial quantities of oil and gas could have a material adverse effect on the Corporation's business and financial position. The Corporation's properties are in various stages of exploration and development. Whether the Corporation ultimately drills a property may depend on a number of factors including funding, the receipt of additional seismic data or reprocessing of existing data, material changes in oil or gas prices, the costs and availability of drilling equipment, success or failure of wells drilled in similar formations or which would use the same production facilities, changes in estimates of costs to drill or complete wells, the Corporation's ability to attract industry partners to acquire a portion of its working interest to reduce exposure to drilling and completion costs, decisions of the Corporation's joint working interest owners, and/or restrictions under provincial regulators.

Volatility of Oil and Natural Gas Contracts

The ultimate profitability, cash flow and future growth of the Corporation will be affected by changes in prevailing oil and gas prices. Oil and gas prices have been subject to wide fluctuations in recent years in response to changes in the supply and demand for oil and natural gas, market uncertainty, competition, regulatory developments and other factors which are beyond the control of the Corporation. It is impossible to predict future oil and natural gas price movements with any certainty. An extended or substantial decline in oil and gas prices would have a material adverse effect on (i) the Corporation's access to capital, and (ii) the Corporation's financial position and results of operations.

Exploration, Development and Production Risks

Oil and natural gas exploration involves a high degree of risk and there is no assurance that expenditures made on exploration by Terra Energy will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling,

completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While close well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

New Alberta Royalty Regime

On October 25, 2007, the Alberta government released a report entitled "The New Royalty Framework" (the "NRF") containing the government's proposals for Alberta's new royalty regime which is scheduled to be effective on January 1, 2009. Given that the NRF has only recently been announced, it is not possible at this time to determine the full impact of the NRF on Terra Energy's financial condition and operations; however, as Terra Energy's assets are primarily in British Columbia, this impact will be minimal.

Terra Energy cannot provide any assurance that the NRF will be implemented in the form proposed. If changes are made to the NRF before it is implemented by the Alberta government, such changes could result in the implementation of a new royalty regime that impacts Terra Energy in a materially different manner, and that is more adverse to Terra Energy, than the NRF as currently proposed.

Prices, Markets and Marketing of Crude Oil and Natural Gas

Oil and natural gas are commodities whose prices are determined based on world demand, supply and other factors, all of which are beyond the control of Terra Energy. World prices for oil and natural gas have fluctuated widely in recent years. Any material decline in prices will result in a reduction of net production revenue. Certain wells or other projects may become uneconomic as a result of a decline in world oil prices and natural gas prices, leading to a reduction in the future volume of Terra Energy's oil and gas production. Terra Energy might also elect not to produce from certain wells at lower prices. All these factors could result in a material decrease in Terra Energy's future net production revenue, causing a reduction in its oil and gas acquisition and development activities. In addition, bank borrowings available to Terra Energy will be in part determined by the borrowing base of Terra Energy. A sustained material decline in prices from historical average prices could reduce Terra Energy's future borrowing base, therefore reducing the bank credit available to Terra Energy, and could require that a portion of any existing bank debt of Terra Energy be repaid.

In addition to establishing markets for its oil and natural gas, Terra Energy must also successfully market its oil and natural gas to prospective buyers. The marketability and price of oil and natural gas which may be acquired or discovered by Terra Energy will be affected by numerous factors beyond its control. Terra Energy will be affected by the differential between the price paid by refiners for light quality oil and the grades of oil produced by Terra Energy. The ability of Terra Energy to market natural gas may depend upon its ability to acquire space on pipelines which deliver natural gas to commercial markets. Terra Energy will also likely be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities and related to operational problems with such pipelines and facilities and extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and the management of other aspects of the oil and natural gas business. Terra Energy has limited direct experience in the marketing of oil and natural gas.

Substantial Capital Requirements; Liquidity

Terra Energy anticipates that it will make substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. If Terra Energy's future revenues or reserves decline, Terra Energy may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to Terra Energy. Moreover, future activities may require Terra Energy to alter its capitalization significantly. The inability of Terra Energy to access sufficient capital for its operations could have material adverse effect on Terra Energy's financial condition, results of operations or prospects.

Competition

The Corporation engages in the highly competitive industry of exploration for and production of oil and gas. The Corporation competes directly and indirectly with major and independent oil and gas companies in its exploration for and development of desirable oil and gas properties. Many companies and individuals are engaged in the business of acquiring interests in and developing oil and gas properties in Canada, and the industry is not dominated by any single competitor or a small number of competitors. Many of such competitors have substantially greater financial, technical, sales, marketing and other resources, as well as greater historical market acceptance than does the Corporation. The Corporation will compete with numerous industry participants for the acquisition of land and rights to prospects, and for the equipment and labor required to operate and develop such prospects. Competition could materially and adversely affect the Corporation's business, operating results and financial condition. Such competitive disadvantages could adversely affect the Corporation's ability to participate in projects with favorable rates of return.

Shortage of Supplies and Equipment

The Corporation's ability to conduct operations in a timely and cost effective manner is subject to the availability of natural gas and crude oil field supplies, rigs, equipment and service crews. Although none are expected currently, any shortage of certain types of supplies and equipment could result in delays in our operations as well as in higher operating and capital costs.

Interruption From Severe Weather

The Corporation's operations are conducted principally in the central region of Alberta, northeastern British Columbia and Saskatchewan. The weather in these areas can be extreme and can cause interruption or delays in our drilling and construction operations.

Dependence on Third-Party Pipelines

In fiscal 2007, substantially all of Terra Energy's sales of natural gas production were through deliveries to local third-party gathering systems to processing plants. In addition, the Corporation relies on access to interprovincial pipelines for the sale and distribution of substantially all of our gas. As a result, a curtailment of our sale of natural gas by pipelines or by third-party gathering systems, an impairment of our ability to transport natural gas on interprovincial pipelines or a material increase in the rates charged to us for the transportation of natural gas by reason of a change in federal or provincial regulations or for any other reason, could have a material adverse effect upon us. In such event, we would have to obtain other transportation arrangements. There can be no assurance that we would have economical transportation alternatives or that it would be feasible for us to construct pipelines. In the event such circumstances were to occur, our netbacks from the affected wells would be suspended until, and if, such circumstances could be resolved.

Operating Hazards and Uninsured Risks

The oil and gas business involves a variety of operating risks, including fire, explosion, pipe failure, casing collapse, abnormally pressured formations, adverse weather conditions, governmental and political actions, premature reservoir declines and environmental hazards such as oil spills, gas leaks and discharges of toxic gases. The occurrence of any of these events with respect to any property operated or owned (in whole or in part) by us could have a material adverse impact on us. The Corporation and the operators of our properties, maintain insurance in accordance with customary industry practices and in amounts that we believe to be reasonable. However, insurance coverage is not always economically feasible and is not obtained to cover all types of operational risks. The occurrence of a significant event that is not insured or insured fully could have a material adverse effect on our financial condition.

Restoration, Safety and Environmental Risks

Our operations are in Alberta, British Columbia and Saskatchewan. Certain laws and regulations exist that require companies engaged in petroleum activities to obtain necessary safety and environmental permits to operate. Such legislation may restrict or delay us from conducting operations in certain geographical areas. Further, such laws and regulations may impose liabilities on us for remedial and clean-up costs, personal injuries related to safety and environmental damages, such liabilities collectively referred to as “asset retirement obligations”.

Expiration of Licenses and Leases

The Corporation’s properties are held in the form of licenses and leases and working interests in licenses and leases. If the Corporation or the holder of the license or lease fails to meet the specific requirement of a license or lease, the license or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each license or lease will be met. The termination or expiration of the Corporation’s licenses or leases or the working interests relating to a license or lease may have a material adverse effect on the Corporation’s results of operations and business.

Title

Title to oil and natural gas interests is often not capable of conclusive determination without incurring substantial expense. In accordance with industry practice, Terra Energy will conduct such title reviews in connection with its principal properties as it believes are commensurate with the value of such properties. However, no absolute assurances can be given that title defects do not exist. If title defects do exist, it is possible that Terra Energy may lose all or a portion of its right title and interest in and to the properties to which the title defects relate.

Environmental Risks

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and federal, provincial and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and

may require Terra Energy to incur costs to remedy such discharge. Implementation of strategies with respect to climate change and reducing greenhouse gases whether to meet the limits required by the Kyoto Protocol or as otherwise determined by federal or provincial governments could have a material impact on the nature of oil and natural gas operations, including those of Terra Energy. See "Industry Conditions – Environmental Regulation". Terra Energy is in material compliance with current environmental laws. No assurance can be given that the application of environmental laws to the business and operations of Terra Energy will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect Terra Energy's financial condition, results of operations or prospects.

Reserve Estimates

There are numerous uncertainties inherent in estimating quantities in oil, natural gas and natural gas liquids reserves and cash flows to be derived therefrom, including many factors beyond the Corporation's control. The reserve and associated cash flow information set forth herein represents estimates only. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of oil and gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary from actual results. All such estimates are to some degree speculative, and classifications of reserves are only attempts to define the degree of speculation involved. For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected therefrom prepared by different engineers, or by the same engineers at different times, may vary. The Corporation's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material. Further, the evaluations are based in part on the assumed success of exploitation activities intended to be undertaken in future years. The reserves and estimated cash flows to be derived therefrom contained in such evaluations will be reduced to the extent that such exploitation activities do not achieve the level of success assumed in the evaluation.

Estimates of proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves and such variations could be material.

In accordance with applicable securities laws, GLJ, the independent reserves evaluator, has used forecast price and cost estimates in calculating reserve quantities included herein. Actual future net revenue will be affected by other factors such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs. Actual production and revenues derived therefrom will vary from the estimates contained in the GLJ Report, and such variations could be material. The GLJ Report is based in part on the assumed success of activities the Corporation intends to undertake in future years. The reserves and estimated cash flows to be derived therefrom contained in the GLJ Report will be reduced to the extent that such activities do not achieve the level of success assumed in the GLJ Report. The GLJ Report is effective as of a specific effective date and has not been updated and thus does not reflect changes in the Corporation's resources since that date.

Reserve Replacement

Terra Energy's future oil and natural gas reserves, production, and cash flows to be derived therefrom are highly dependent on Terra Energy successfully acquiring or discovering new reserves. Without the continual addition of new reserves, any existing reserves Terra Energy may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in Terra Energy's reserves will depend not only on Terra Energy's ability to develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. There can be no assurance that Terra Energy's future exploration and development efforts will result in the discovery and development of additional commercial accumulations of oil and natural gas.

Reliance on Operators and Key Employees

To the extent Terra Energy is not the operator of all of its oil and gas properties, Terra Energy will be dependent on such operators for the timing of activities related to such properties and will largely be unable to direct or control the activities of the operators. In addition, the success of Terra Energy will be largely dependent upon the performance of its management and key employees. Terra Energy does not have any key man insurance policies, and therefore there is a risk that the death or departure of any member of management or any key employee could have a material adverse effect on Terra Energy.

Corporate Matters

To date, Terra Energy has not paid any dividends on its outstanding common shares and does not anticipate the payment of any dividends on its common shares for the foreseeable future.

Certain of the directors and officers of Terra Energy are also directors and officers of other oil and gas companies involved in oil and gas exploration and development, and conflicts of interest may arise between their duties as officers and directors of Terra Energy and as officers and directors of such other companies. Such conflicts must be disclosed in accordance with, and are subject to such other procedures and remedies as apply under the ABCA.

Management of Growth

The Corporation may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Corporation to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Corporation to deal with this growth could have a material adverse impact on its business, operations and prospects.

Permits and Licences

The operations of Terra Energy may require licences and permits from various governmental authorities. There can be no assurance that Terra Energy will be able to obtain all necessary licences and permits that may be required to carry out exploration and development at its properties.

Additional Funding Requirements

Terra Energy's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times. From time to time, Terra Energy may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause Terra Energy to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If Terra Energy's revenues from its reserves

decrease as a result of lower oil and natural gas prices or otherwise, it will affect Terra Energy's ability to expend the necessary capital to replace its reserves or to maintain its production. If Terra Energy's cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available on favourable terms. Any equity financing may result in a change of control of Terra Energy or holders of its common shares suffering further dilution.

Variations in Foreign Exchange Rates

World oil and gas prices are quoted in United States dollars and the price received by Canadian producers is therefore effected by the Canadian/U.S. dollar exchange rate, which will fluctuate over time. In recent years, the Canadian dollar has increased materially in value against the United States dollar. Such material increases in the value of the Canadian dollar have negatively impacted Terra Energy's operating entities production revenues. Further material increases in the value of the Canadian dollar would exacerbate this negative impact. This increase in the exchange rate for the Canadian dollar and future Canadian/United States exchange rates could accordingly impact the future value of Terra Energy's reserves as determined by independent evaluators.

Issuance of Debt

From time to time Terra Energy may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed partially or wholly with debt, which may increase Terra Energy's debt levels above industry standards. Neither Terra Energy's articles nor its bylaws limit the amount of indebtedness that Terra Energy may incur. The level of Terra Energy's indebtedness from time to time could impair Terra Energy's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise. Terra Energy's ability to meet its debt service obligations will depend on Terra Energy's future operations which are subject to prevailing industry conditions and other factors, many of which are beyond the control of Terra Energy. As certain of the indebtedness of Terra Energy bears interest at rates which fluctuate with prevailing interest rates, increases in such rates would increase Terra Energy's interest payment obligations and could have a material adverse effect on Terra Energy's financial condition and results of operations. Further, Terra Energy's indebtedness is secured by substantially all of Terra Energy's assets. In the event of a violation by Terra Energy of any of its loan covenants or any other default by Terra Energy on its obligations relating to its indebtedness, the lender could declare such indebtedness to be immediately due and payable and, in certain cases, foreclose on Terra Energy's assets. In addition, oil and gas operations are subject to the risks of exploration, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, cratering, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on future results of operations, liquidity and financial condition.

Financial Instruments

From time to time the Corporation may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, the Corporation will not benefit from such increases. Similarly, from time to time the Corporation may enter into agreements to fix the exchange rate of Canadian to United States dollars in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to the United States dollar; however, if the Canadian dollar declines in value compared to the United States dollar, the Corporation will not benefit from its fluctuating exchange rate.

Availability of Drilling Equipment and Access Restrictions

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to Terra Energy and may delay exploration and development activities.

Aboriginal Claims

Aboriginal peoples have claimed aboriginal title and rights to portions of western Canada. The Corporation is not aware that any claims have been made in respect of its property and assets; however, if a claim arose and was successful this could have an adverse effect on the Corporation and its operations.

Seasonality

The level of activity in the Canadian oil and gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Also, certain oil and gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. There can be no assurance that these seasonal factors will not adversely affect the timing and scope of the Corporation's exploration and development activities, which could in turn have a material adverse impact on the Corporation's business, operations and prospects.

Third Party Credit Risk

The Corporation is, or may be exposed to, third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production and other parties. In the event such entities fail to meet their contractual obligations to the Corporation, such failures could have a material adverse effect on the Corporation and its cash flow from operations. In addition, poor credit conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in the Corporation's ongoing capital program, potentially delaying the program and the results of such program until the Corporation finds a suitable alternative partner.

Alternatives to and Changing Demand for Petroleum Products

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and energy generation devices could reduce the demand for crude oil and other liquid hydrocarbons. The Corporation cannot predict the impact of changing demand for oil and natural gas products, and any major changes may have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Kyoto Protocol

Canada is a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established thereunder to set legally binding targets to reduce nationwide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases". Terra Energy's exploration and production facilities and other operations and activities emit a small amount of greenhouse gases which will likely subject Terra Energy to legislation regulating emissions of greenhouse gases. The Government of Canada has developed a "Turning the Corner" climate change

plan, which outlines future regulatory requirements that will set greenhouse gas emission reduction requirements for various industrial activities, including oil and gas exploration and production. Future federal legislation, together with provincial emission reduction requirements, such as those contained in Alberta's *Climate Change and Emissions Management Act* and proposed in British Columbia's Bill 18: Greenhouse Gas Reduction (Cap and Trade) Act, may require the reduction of emissions or emissions intensity with Terra Energy's operations and facilities. The direct or indirect costs of these regulations may adversely affect the business of Terra Energy.

INDUSTRY CONDITIONS

Canadian Government Regulation

The oil and natural gas industry is subject to extensive controls and regulations imposed by various levels of government. Outlined below are some of the more significant aspects of the relevant legislation and regulations. It is not expected that any of such controls and regulations will affect the operations of the Corporation in a manner materially different than they will affect other oil and gas companies of similar size.

Pricing and Marketing – Oil

Producers of oil negotiate sales contracts directly with oil purchasers, with the result that the market determines the price of oil. Such price depends on oil quality, price of competing oils, distance to market and the value of refined products. Oil exporters are also entitled to enter into export contracts with terms not exceeding one year in the case of light crude oil and two years in the case of heavy crude oil, provided that an order approving such export has been obtained from the National Energy Board of Canada (the "NEB"). Any oil export to be made pursuant to a contract of longer duration (to a maximum of 25 years) requires an exporter to obtain an export license from the NEB and the issuance of such license requires the approval of the Governor in Council.

Pricing and Marketing – Natural Gas

The price of natural gas sold in intra-provincial and inter-provincial trade is determined by negotiation between buyers and sellers. Natural gas exported from Canada is subject to regulation by the NEB and the government of Canada. The price received by the Corporation depends, in part, on the prices of competing natural gas and other substitute fuels, access to downstream transportation, distance to markets, length of the contract term, weather conditions, the supply and demand balance and other contractual terms. Exporters are free to negotiate prices with purchasers, provided that the export contracts must continue to meet certain other criteria prescribed by the NEB and the Government of Canada. Natural gas exports for a term of less than 2 years or for a term of 2 to 20 years (in quantities of not more than 30,000 m³/day) must be made pursuant to an NEB order. Any natural gas export to be made pursuant to a contract of longer duration (to a maximum of 25 years) or for a larger quantity requires an exporter to obtain an export license from the NEB and the issuance of such license requires the approval of the Governor in Council.

The government of Alberta also regulates the volume of natural gas which may be removed from the province for consumption elsewhere.

The lack of firm pipeline capacity continues to limit the ability to produce and market natural gas production although pipeline expansions are ongoing. In addition, the prorating of capacity on the interprovincial pipeline systems continues to limit oil exports.

The North American Free Trade Agreement

On January 1, 1994, the North American Free Trade Agreement (“**NAFTA**”) among the governments of Canada, the United States and Mexico became effective. NAFTA carries forward most of the material energy terms contained in the Canada-U.S. Free Trade Agreement. In the context of energy resources, Canada continues to remain free to determine whether exports to the U.S or Mexico will be allowed provided that the restrictions are otherwise justified under certain provisions of the General Agreement on Tariffs and Trade and then only if any export restrictions do not: (i) reduce the proportion of the energy resource exported relative to the total supply of energy resource (based upon the proportion prevailing in the most recent 36 months); (ii) impose an export price higher than the domestic price; or (iii) disrupt normal channels of supply. All three countries are prohibited from imposing minimum export or import price requirements.

NAFTA contemplates the reduction of Mexican restrictive trade practices in the energy sector and prohibits discriminatory border restrictions and export taxes. The agreement also contemplates clearer disciplines on regulators to avoid discriminatory actions and to minimize disruption of contractual arrangements.

Provincial Royalties and Incentives

In addition to federal regulation, each province has legislation and regulations which govern land tenure, royalties, production rates, environmental protection and other matters. The royalty regime is a significant factor in the profitability of oil and natural gas production. Royalties payable on production from lands other than Crown lands are determined by negotiations between the mineral owner and the lessee. Crown royalties are determined by governmental regulation and are generally calculated as a percentage of the value of the gross production, and the rate of royalties payable generally depends in part on well productivity, geographical location, field discovery data and the type or quality of the petroleum product produced.

From time to time the governments of the western Canadian provinces create incentive programs for exploration and development. Such programs often provide for royalty rate reductions, royalty holidays and tax credits, and are generally introduced when commodity prices are low. The programs are designed to encourage exploration and development activity by improving earnings and cash flow within the industry. Oil and gas royalty rates vary from province to province.

Land Tenure

Crude oil and natural gas located in the western provinces is owned predominantly by the respective provincial governments. Provincial governments grant rights to explore for and produce oil and natural gas pursuant to leases, licenses and permits for varying terms from two years and on conditions set forth in provincial legislation including requirements to perform specific work or make payments. Oil and natural gas located in such provinces can also be privately owned and rights to explore for and produce such oil and natural gas are granted by lease on such terms and conditions as may be negotiated.

Environmental Regulation

. The oil and natural gas industry is currently subject to environmental regulations pursuant to provincial and federal legislation. Environmental legislation provides for restrictions and prohibitions on releases or emissions and regulation on the storage and transportation of various substances produced or utilized in association with certain oil and gas industry operations and can affect the location and operation of wells and facilities and the extent to which exploration and development is permitted. In addition, legislation requires that well and facility sites be abandoned and reclaimed to the satisfaction of provincial authorities. As well, applicable environmental laws may impose remediation obligations with respect to property designated as a contaminated site upon certain responsible persons, which

include persons responsible for the substance causing the contamination, persons who caused the release of the substance and any past or present owner, tenant or other person in possession of the site. Compliance with such legislation can require significant expenditures and a breach of such legislation may result in the suspension or revocation of necessary licences and authorizations, civil liability for pollution damage, the imposition of fines and penalties or the issuance of clean-up orders.

Applicable environmental laws in Alberta are consolidated in the *Environmental Protection and Enhancement Act* (the “EPEA”). In British Columbia, environmental laws are primarily found in the *Environmental Management Act* (the “EMA”). Under the EPEA and the EMA, environmental standards and compliance for releases, clean-up and reporting are stricter and more onerous than in previous legislation. Also, the range of enforcement actions available and the severity of penalties have been significantly increased. These changes will have an incremental effect on the cost of conducting operations in both provinces. Both Alberta and British Columbia review energy projects through an environmental assessment process, which may be held in conjunction with a federal assessment. These review processes involve public participation.

Climate change is an issue that is increasingly subject to government regulation. Although Canada has ratified the Kyoto Protocol and despite legislation to this end introduced by opposition parties in Parliament, it remains uncertain whether the targets in the Kyoto Protocol will be enforced in Canada. Alberta, British Columbia and the federal Government have all introduced climate change action plans that include various means of achieving emissions or emissions intensity reductions, including direct reductions, emissions trading, carbon capture and storage, technology fund contributions and credit for early action. Coordination between these plans has not yet been developed and remains a source of uncertainty. Given the evolving regulatory schemes related to climate change and the control of greenhouse gases and resulting requirements, it is not currently possible to predict the final form these requirements will take or the impact on Terra Energy and its operations and financial condition at this time.

DIVIDENDS OR DISTRIBUTIONS

Since its incorporation, Terra Energy has not paid any dividends or made any distributions on its common shares. Dividends or distributions on its common shares will be paid solely at the discretion of Terra Energy’s board of directors after taking into account the financial condition of Terra Energy and the economic environment in which it is operating. No dividends or distributions are expected to be paid in the foreseeable future.

DESCRIPTION OF SHARE CAPITAL

The authorized capital of Terra Energy consists of an unlimited number of common shares and an unlimited number of preferred shares issuable in series, of which, as at December 31, 2007, 74,297,484 common shares were issued and outstanding. No preferred shares are presently issued and outstanding. Terra Energy’s stock option plan approved by Shareholders on May 15, 2007 authorized the Corporation to issue up to 10 percent of issued and outstanding common shares to directors, officers, employees and to consultants of the Corporation. At December 31, 2007, 6,693,000 options to purchase common shares were outstanding.

The following is a summary of the rights, privileges, restrictions and conditions attaching to the common shares and the preferred shares of Terra Energy.

Common Shares

The common shares rank junior to the preferred shares. Holders of common shares are entitled to one vote per share at meetings of shareholders of Terra Energy, to receive dividends if, as and when declared by the board of directors of Terra Energy and to receive pro rata the remaining property and

assets of Terra Energy upon its dissolution or winding-up, subject to the rights of shares having priority over the common shares.

Preferred Shares

The preferred shares are issuable in series and will have such rights, restrictions, conditions and limitations as the board of directors of Terra Energy may from time to time determine. The preferred shares shall rank senior to the common shares with respect to the payment of dividends or distribution of assets or return of capital of Terra Energy in the event of a dissolution, liquidation or winding up of Terra Energy. No preferred shares are presently issued and outstanding.

MARKET FOR SECURITIES

Price Range and Volume of Trading of Common Shares

The following table sets forth the reported high and low sales prices (which are not necessarily the closing prices) and the trading volumes for the common shares of Terra Energy on the TSX Venture Exchange as reported by sources Terra Energy believes to be reliable for the periods indicated:

	Price Range (\$)		Trading Volume
	High	Low	
2007			
January	1.20	0.95	5,064,100
February	1.06	0.87	5,147,100
March	1.55	0.98	2,938,100
April	1.45	1.25	4,566,100
May	1.48	1.25	3,382,300
June	1.43	1.25	757,700
July	1.35	1.12	1,065,600
August	1.20	0.96	1,396,800
September	1.10	0.95	1,848,000
October	1.19	0.90	1,363,500
November	1.34	1.01	1,287,500
December	1.07	0.95	2,310,600
2008			
January	1.35	1.00	1,428,700
February	1.62	1.05	2,870,500
March	1.62	1.26	1,598,600
April 1 - 25	2.00	1.32	2,690,800

PRIOR SALES

The following table sets forth, for each class of securities of the Corporation that is outstanding but not listed or quoted on a marketplace, the price at which securities of the class have been issued during the financial year ended December 31, 2007 and the number of securities of the class issued at that price and the date on which the securities were issued.

Class of Securities	Issue Price	Number of Securities Issued	Date of Issue
Stock Options	1.30	48,000	26 March 2007
Stock Options	1.36	100,000	12 June 2007
Stock Options	1.36	1,187,000	25 June 2007
Stock Options	1.32	86,000	28 June 2007
Stock Options	1.35	100,000	13 July 2007
Stock Options	1.15	20,000	19 November 2007
Stock Options	1.03	175,000	17 December 2007

ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER

There are no shares in escrow or subject to contractual restriction on transfer at the time of this report.

DIRECTORS AND OFFICERS

As of April 25, 2008, the name, province and country of residence of the directors and officers, the number of voting securities of the Corporation beneficially owned, directly or indirectly, or over which each exercises control or direction, the offices held by each in the Corporation, the period served as director and the principal occupation of each during the last five years are as follows:

Name and Province and Country of Residence	Offices Held and Time as Director or Officer	Principal Occupation During the Last Five Years
Ted S. Anderson ⁽¹⁾⁽²⁾⁽¹⁰⁾ Alberta, Canada	Director since January 30, 2004	Mr. Anderson is the Manager of Special Projects for Pioneer Land Services since 2000. From 1978 through 2000, Mr. Anderson was President of Pioneer Land Services Ltd.
Ralph G. Evans ⁽³⁾⁽⁴⁾ Alberta, Canada	Director since January 30, 2004	Mr. Evans is the principal of R.G. Evans Consulting Inc. since 1996. Mr. Evans was employed for over 29 years with the Alberta Energy & Utilities Board and its predecessor regulatory body the Energy Resources Conservation Board in various positions including as a Board member.
Colin P. MacDonald ⁽²⁾⁽⁴⁾⁽⁹⁾ Alberta, Canada	Director since January 30, 2004	Mr. MacDonald is a partner in the Calgary offices of Borden Ladner Gervais LLP, a Canadian law firm.
Cas H. Morel ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾ Alberta, Canada	Promoter President, Chief Executive Officer, Chairman and Director since January 30, 2004	Mr. Morel is the President, Chief Executive Officer and a director of Terra Energy since January 30, 2004 and has been the President and a director of Terra Capital Corp. (a private holding and management services company) since 1996. Mr. Morel was also President, Chief Executive Officer and a director of each of Rhodes Resources Corp. from October 31, 2002 to January 30, 2004 and Terrapet Energy Corp. from November 7, 1995 to January 30, 2004, prior to their amalgamation to form Terra Energy Corp.
Robert D. Penner ⁽¹⁾⁽²⁾ Alberta, Canada	Director since April 21, 2005	Mr. Penner is a Chartered Accountant and is currently an independent businessman. From 1965 until his retirement in 2004, Mr. Penner worked with KPMG LLP, Chartered Accountants and its predecessor as a senior tax partner.
Tony Sabelli ⁽¹⁾⁽³⁾ Alberta, Canada	Director since May 15, 2007	Mr. Sabelli is a founder of and Vice President, Operations with a private oil and gas producer. Prior thereto, Mr. Sabelli was Vice President, Operations with Red Sky Energy Ltd. from April 2005 to April 2006. Mr. Sabelli held various positions at Canadian Natural Resources Limited from January 1993 to March 2005, including a position as the General Manager of Drilling and Completions.
Tim A. Beatty ⁽⁸⁾ Alberta, Canada	Vice President since January 30, 2004	Mr. Beatty has employed with Terra Energy since January 1, 2004 currently in the position of Vice President Capital Projects since 2007 and prior thereto as Vice President Drilling and Completions since 2004. Prior thereto he was the Vice President, Operations of Terra Capital Corp. since July 2002. Prior thereto he was an operations consultant at Apache Canada (an oil and gas company) since February 2002 and prior thereto was a Manager of Drilling and Completions of Santos (an Australian oil and gas company) since 2000. Prior thereto, Mr. Beatty was the Drilling Services Team Leader at Santos since 1999.

Name and Province and Country of Residence	Offices Held and Time as Director or Officer	Principal Occupation During the Last Five Years
John M. Behr Alberta, Canada	Vice President, Exploration since September 23, 2005	Mr. Behr is the Vice President, Exploration of Terra Energy since September 2005 and prior thereto was the Chief Geophysicist of Terra Energy from February to September of 2006. From March 2004 to February 2005, he was Senior Geophysicist of the Fort Saint John Exploration group at Dominion Exploration Canada. Prior thereto, Mr. Behr was Principal Geophysicist in the Deep Basin and Foothills Group at El Paso Oil and Gas Canada Inc. from August 2002 until March 2005. Prior thereto, Mr. Behr was Senior Geophysicist at companies such as Shell Canada Limited, Renata Resources Inc., and Rio Alto Exploration Ltd.
Tim Blair Alberta, Canada	Vice President, Land since August 26, 2004	Mr. Blair is the Vice President, Land of Terra Energy since August 26, 2004, previously holding the position of Manager of Land at Terra Energy from August 26, 2004. Prior to joining Terra Energy on June 1, 2004, Mr. Blair held various positions in the oil and gas industry since 1980, including Senior Landman at Acclaim Energy Trust, Alberta Asset Team Manager at Dominion Energy Canada Limited, BC Land Manager at Dominion Energy Canada Limited, and Manager of Negotiations at CNRL
Jan M. Campbell Alberta, Canada	Corporate Secretary since May 15, 2007	Ms. Campbell is the President of Comply Inc., a consulting firm which provides corporate secretarial services, since December 2005. From September 1997 to November 2005, Ms. Campbell was the Corporate Secretary to Precision Drilling Corporation, a predecessor to Precision Drilling Trust, a publicly traded income trust listed on the TSX and the New York Stock Exchange. Ms. Campbell is not an employee of Terra Energy, but rather serves as a consultant and as an officer on a part-time basis.
Bud K. Love ⁽⁷⁾ Alberta, Canada	Vice President, Finance and Chief Financial Officer since January 30, 2004	Mr. Love is the Vice President, Finance and Chief Financial Officer of Terra Energy since January 30, 2004. Mr. Love was the Vice President, Finance and Chief Financial Officer of Rhodes Resources Corp. from October 31, 2002 to January 30, 2004 and Vice President, Finance and Chief Financial Officer of Terrapet Energy Corp. from May 1998 to January 30, 2004, prior to their amalgamation to form Terra Energy Corp. From 1993 to February 2004, Mr. Love was the principal and founder of BKL & Associates, a full service accounting firm.

Notes:

- (1) Audit Committee member.
- (2) Corporate Governance, Compensation and Nominating Committee member.
- (3) Engineering Reserves Committee member .
- (4) Environmental and Safety Committee member.
- (5) Mr. Morel is the President of Terra Capital Corp. and Forterra Properties Inc. The issued and outstanding shares of Terra Capital Corp. are owned by the Morel Family Trust, of which, Mr. Morel is the trustee and a potential beneficiary. The issued and outstanding shares of Forterra Properties Inc. are owned by Terra Capital Corp.
- (6) Mr. Morel acted as President, Chief Executive Officer and a director of Rhodes Resources Corp. from October 31, 2002 to January 30, 2004 and was the President, Chief Executive Officer and sole director of Terrapet Energy Corp from November 7, 1995 to January 30, 2004.
- (7) Mr. Love was the Vice President, Finance and Chief Financial Officer of Rhodes Resources Corp. from October 31, 2002 to January 30, 2004 and was the Vice President, Finance and Chief Financial Officer of Terrapet Energy Corp. from May 1998 to January 30, 2004.
- (8) Mr. Beatty was the Vice President, Production of Rhodes Resources Corp. from October 31, 2002 to January 30, 2004.
- (9) Mr. MacDonald was a director of Rhodes Resources Corp. from September 25, 2003 to January 30, 2004.
- (10) Mr. Anderson was a director of Rhodes Resources Corp. from October 31, 2002 to January 30, 2004.

As at April 25, 2008, the directors and officers of the Corporation, as a group, owned, directly or indirectly, or controlled or directed 24,438,651 common shares or approximately 33% of the issued and outstanding common shares. The information as to shares beneficially owned, directly or indirectly or

over which control or direction is exercised, is based upon information furnished to the Corporation by the respective individuals indicated.

LEGAL PROCEEDINGS

To the knowledge of the management of Terra Energy, Terra Energy is not a party to, nor are any of Terra Energy's properties subject to any material legal proceedings. However, the Corporation is subject to non-material legal proceedings as described in Note 15 to the audited financial statements of the Corporation for the year ended December 31, 2007 (the "**2007 Financial Statements**"), which financial statements can be found on SEDAR at www.sedar.com and such information is incorporated herein by reference.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

The management of the Corporation is not aware of any material interests, direct or indirect, of any directors or executive officers of the Corporation, any person or company which beneficially owns or controls or directs, directly or indirectly, more than 10% of the outstanding common shares of the Corporation, or any known associate or affiliate of such persons, in any transaction within the last three financial years of the Corporation, or during the current financial year which has materially affected or is reasonably expected to materially affect the Corporation.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the common shares of Terra Energy is Computershare Trust Company of Canada at its principal offices in Calgary, Alberta.

MATERIAL CONTRACTS

Terra Energy has not entered into any material contracts, except for contracts entered into in the ordinary course of business.

The Corporation has a revolving line of credit, with a syndicate of chartered banks, of up to \$70 million (2006 - \$55 million), which bears interest at prime plus 0.50% (2006 - 0.25%). The facility is secured by a general security agreement, a floating charge debenture in the amount of \$150 million and an unlimited liability guarantee by Terra Energy Corp. and Constar Resources Ltd. At December 31, 2007, the Corporation was indebted on the revolving line of credit in amount of \$54,631,003 (2006 - \$35,478,837). The outstanding cheques issued in the amount of \$1,828,943 are shown as bank overdraft until they clear against the revolving line.

The Corporation's bank credit facility is structured as a 364 day revolving credit facility with a one year term out. If the credit facility is not renewed at maturity, the corporation is required to pay the outstanding balance one year from the maturity. The credit facility is subject to a renewal in May 2008. As a result the liability has been classified as a non-current liability. In addition, the credit facility includes a change of control clause whereby in the event of any change of control, the creditor, at their discretion, may terminate the credit facility and therefore the entire amount outstanding will be due and payable upon demand.

As at December 31, 2007, the Corporation was in compliance with all loan covenants.

INTERESTS OF EXPERTS

There is no person or company whose profession or business gives authority to a statement made by such person or company and who is named as having prepared or certified a statement, report,

valuation or opinion described or included in a filing, or referred to in a filing, made under National Instrument 51-102 by Terra Energy during, or related to, the year ended December 31, 2007 other than GLJ, Terra Energy's independent qualified reserves evaluator, and Deloitte & Touche LLP, Terra Energy's auditor. To Terra Energy's knowledge, none of the principals of GLJ had any registered or beneficial interests, direct or indirect, in any securities or other property of Terra Energy or of Terra Energy's associates or affiliates either at the time they prepared the statement, report, valuation or opinion prepared by it, at any time thereafter or to be received by them. Deloitte & Touche LLP, Terra Energy's auditor, is independent in accordance with the auditor's rules of professional conduct in Canada.

In addition, none of the aforementioned persons or companies, nor any director, officer or employee of any of the aforementioned persons or companies, is or is expected to be elected, appointed or employed as a director, officer or employee of Terra Energy or any associate or affiliate of Terra Energy.

CONFLICTS

There are potential conflicts of interest to which the directors and officers of Terra Energy will be subject in connection with the operations of Terra Energy. In particular, certain of the directors and officers of Terra Energy are involved in managerial or director positions with other oil and gas companies whose operations may, from time to time, be in direct competition with those of Terra Energy or with entities which may, from time to time, provide financing to, or make equity investments in, competitors of Terra Energy. See "*Directors and Officers*". Conflicts, if any, will be subject to the procedures and remedies available under the ABCA. The ABCA provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided by the ABCA.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remunerations, principal holders of the Corporation's securities, options to purchase securities and interests of insiders in material transactions is contained in the Corporation's management information circular relating to the annual meeting of shareholders of the Corporation to be held on June 24, 2008. Additional financial information is contained in the Corporation's comparative financial statements and management discussion and analysis for the year ended December 31, 2007. Additional information relating to the Corporation may be found on SEDAR at www.sedar.com.

Additional copies of this Annual Information Form, the materials listed in the preceding paragraph, any interim financial statements which have been issued by the Corporation and any other document incorporated herein by reference will be available upon request by contacting the Corporation at its offices at Suite 970, 333 – 7th Ave S.W., Calgary, Alberta T2P 2Z1, Phone: (403) 699-7777 or Fax: (403) 264-7189.

**APPENDIX A
FORM 51-101F2
REPORT ON RESERVES DATA
BY
INDEPENDENT QUALIFIED RESERVES
EVALUATOR OR AUDITOR**

Report on Reserves Data

To the board of directors of Terra Energy Corp. (the “**Company**”):

1. We have reviewed the Company’s reserves data as at December 31, 2007. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2007, estimated using forecast prices and costs.
2. The reserves data are the responsibility of the Company’s management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the “**COGE Handbook**”) prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions in the COGE Handbook.
4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us for the year ended December 31, 2007 and identifies the respective portions thereof that we have audited, evaluated and reviewed and reported on to the Company’s board of directors:

Independent Qualified Reserves Evaluator	Description and Preparation Date of Evaluation Report	Location of Reserves (Country or Foreign Geographic Area)	Net Present Value of Future Net Revenue (before income taxes, 10% discount rate \$M)			
			Audited	Evaluated	Reviewed	Total
GLJ Petroleum Consultants	Corporate Summary February 19, 2008	Canada	-	\$213,523	-	\$213,523

5. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook.
6. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after their respective preparation dates.

7. Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material. However, any variations should be consistent with the fact that reserves are categorized according to the probability of their recovery.

EXECUTED as to our report referred to above:

GLJ Petroleum Consultants Ltd., Calgary, Alberta, Canada, March 3, 2008

(signed) "Myron J. Hladyshevsky"

Myron J. Hladyshevsky, P.Eng.

Vice-President

**APPENDIX B
FORM 51-101F3
REPORT OF
MANAGEMENT AND DIRECTORS
ON OIL AND GAS DISCLOSURE**

This is the form referred to in item 3 of section 2.1 of National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities (“NI 51-101”). This form does not apply in British Columbia.

Terms to which a meaning is ascribed in NI 51-101 have the same meaning in this form.¹

The report referred to in item 3 of section 2.1 of NI 51-101 shall in all material respects be as follows:

**Report of Management and Directors
on Reserves Data and Other Information**

Management of Terra Energy Corp. (the “**Company**”) are responsible for the preparation and disclosure of information with respect to the Company’s oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2007, estimated using forecast prices and costs.

An independent qualified reserves evaluator has evaluated the Company’s reserves data. The reports of the independent qualified reserves evaluator will be filed with securities regulatory authorities concurrently with this report.

The board of directors of the Company has:

- (a) reviewed the Company’s procedures for providing information to the independent qualified reserves evaluator;
- (b) met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation; and
- (c) reviewed the reserves data with management and the independent qualified reserves evaluator.

The board of directors has reviewed the Company’s procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The board of directors has approved:

- (d) the content and filing with securities regulatory authorities of Form 51-101F1 reserves data and other oil and gas information;
- (e) the filing of Form 51-101F2 which is the report of the independent qualified reserves evaluator on the reserves data; and
- (f) the content and filing of this report.

¹ For the convenience of readers, Appendix 1 to Companion Policy 51-101CP sets out the meanings of certain terms in sections 1 and 2 of this Form or in NI 51-101, Form 51-101F1, Form 51-101F2 or the Companion Policy.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material. However, any variations should be consistent with the fact that reserves are categorized according to the probability of their recovery.

(signed) "*Cas H. Morel*"

Cas H. Morel
President and Chief Executive Officer

(signed) "*Bud K. Love*"

Bud K. Love
Vice President, Finance and Chief Financial
Officer

(signed) "*Ralph G. Evans*"

Ralph G. Evans
Director

(signed) "*Robert D. Penner*"

Robert D. Penner
Director

April 28, 2008

APPENDIX C DEFINITIONS USED FOR RESERVE CATEGORIES

The following reserves definitions are set out by the Canadian Securities Administrators in National Instrument 51-101 (NI 51-101; in Part 2 of Appendix 1 to Companion Policy 51-101CP) with reference to the COGE Handbook.

Reserve Categories

Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, from a given date forward, based on:

- analysis of drilling, geological, geophysical, and engineering data;
- the use of established technology;
- specified economic conditions¹, which are generally accepted as being reasonable, and shall be disclosed.

Reserves are classified according to the degree of certainty associated with the estimates.

Proved Reserves

Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.

Probable Reserves

Probable reserves are those additional reserves that are less certain to be recovered than proved reserves. It is likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

Possible Reserves

Possible reserves are those additional reserves that are less certain to be recovered than probable reserves. It is unlikely that the actual remaining quantities recovered will exceed the sum of the estimated proved plus probable plus possible reserves.

Other criteria that must also be met for the categorization of reserves are provided in Section 5.5 of the COGE Handbook.

Development and Production Status

Each of the reserves categories (proved, probable, and possible) may be divided into developed and undeveloped categories.

Developed Reserves

Developed reserves are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (e.g., when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.

¹ For the purposes of NI 51-101, the key economic assumptions will be the prices and costs used in the estimate, namely:

- (a) constant prices and costs as at the last day of a reporting issuer's financial year; or
- (b) forecast prices and costs.

Developed Producing Reserves

Developed producing reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.

Developed Non-Producing Reserves

Developed non-producing reserves are those reserves that either have not been on production, or have previously been on production, but are shut in, and the date of resumption of production is unknown.

Undeveloped Reserves

Undeveloped reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable, possible) to which they are assigned.

In multi-well pools, it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to subdivide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities and completion intervals in the pool and their respective development and production status.

Levels of Certainty for Reported Reserves

The qualitative certainty levels referred to in the definitions above are applicable to individual reserves entities (which refers to the lowest level at which reserves calculations are performed) and to reported reserves (which refers to the highest level sum of individual entity estimates for which reserves estimates are presented). Reported Reserves should target the following levels of certainty under a specific set of economic conditions:

- at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves;
- at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves;
- at least a 10 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable plus possible reserves.

A quantitative measure of the certainty levels pertaining to estimates prepared for the various reserves categories is desirable to provide a clearer understanding of the associated risks and uncertainties. However, the majority of reserves estimates will be prepared using deterministic methods that do not provide a mathematically derived quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods.

Additional clarification of certainty levels associated with reserves estimates and the effect of aggregation is provided in Section 5.5.3 of the *COGE Handbook*.

Incorporation of these guidelines means that total corporate proved reserves reflect a conservative estimated and proved plus probable reserves reflect a current "best estimate" of the oil and gas quantities which will be recovered.