

Terra Energy Corp.
Annual Information Form
For the Year Ended December 31, 2005

April 26, 2006

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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
mboe	thousand of barrels of oil equivalent
M\$	thousands of dollars
MM\$	millions of dollars
NPV	net present value
km	kilometre

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 statements contained in this Annual Information Form and in certain documents incorporated by reference into this Annual Information Form, constitute forward-looking statements. 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. In addition, the reader is cautioned that historical results are not necessarily indicative of future performance.

In particular, this Annual Information Form and the documents incorporated by reference contain forward-looking 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;
- 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 two wholly-owned subsidiaries, Constar Resources Ltd. and Terra Oil and Gas Inc. each of which is 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. Terra Oil and Gas Inc. is a non-active subsidiary.

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 cashflow, 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. As a result of the successful summer drilling program, all of Terra Energy's five high impact plays have been proved up or advanced. Further information regarding Terra Energy's five high impact plays from its 2005 drilling program can be found at "*OTHER OIL AND GAS INFORMATION - Oil and Gas Properties and Wells*", contained herein.

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 exceptional 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 entitles the warrant holder to acquire one common share at an exercise price of \$2.10 at any time prior to 4 p.m. (Calgary time) on July 27, 2006.

Recent Developments

Building on the drilling success from the 2005 Summer Drilling Program, Terra Energy has focused efforts on building the infrastructure necessary to bring the reserve additions at year end on production.

Terra Energy announced a \$66.1 million capital program for 2006, the majority of which will be focused in Terra Energy's core area of Fort St. John. Of the \$66.1 million, \$34.0 million is allocated for drilling and completion, \$16.6 million is allocated for new equipment, facilities, pipelines and other infrastructure and \$15.5 million is allocated for land and seismic. The primary objective of the 2006 capital program will be to increase shareholder value, measured on a 'NAV per share' basis. Terra Energy has identified over 50 drilling locations in the Fort St. John area. Terra Energy is planning to drill 25 of these locations in 2006, the majority of which will be 100% owned by Terra Energy. As a result of the 25 drilling locations and focus on infrastructure projects, Terra Energy is forecasting a 2006 exit production level of between 5,000 – 6,000 boe/d.

In March 2006, Terra Energy completed a 17 km pipeline connecting Septimus to our Wilder gas facility located north of our Wilder, B.C. area. The pipeline brought on an additional 600 boe/d of natural gas production onstream.

At the end of March, Terra Energy tied-in an additional 225 boe/d of production from Boudreau, B.C. The incremental production additions came from a successful drill into the Triassic formation. In addition to the above, Terra Energy has three additional wells in Boudreau awaiting tie-in. The Corporation expects tie-in to begin after spring break-up with completion targeted by the end of Q3 – 2006. Additional compression may be required at the Red Creek facility to accommodate the incremental production adds from the three new wells in Boudreau.

Early in April 2006, Terra Energy completed a short-tie in pipeline project to bring on an additional 200 boe/d of natural gas and 50 bbls/d of oil production in Mica, B.C. Tie-in of the well required the installation of separation and dehydration facilities at Terra Energy's 16-28 well site and the construction of one mile of twin pipelines. Current production from the well is restricted to approximately 250 boe/d until additional compression can be added at the gathering facility. Once additional compression is in place, production from the well is expected to produce approximately 500 boe/d.

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. At the time of writing, Terra Energy recorded an estimated provision on its balance sheet of \$4,577,373 for reserve and abandonment site restoration as at December 31, 2005. 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, 2005, Terra Energy's head office work force consisted of 21 employees. Field operations are provided by a combination of independent contractors and full-time staff. As at April 26, 2006, Terra Energy's head office work force consisted of 23 employees, and five in our Fort St. John field office.

Trends

There are a number of trends developing 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. Terra Energy's current production is approximately 86% weighted towards natural gas. As a result, fluctuations in the price of natural gas has 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.

The consolidation of the oil and gas industry continues and recent transactions indicate that Canadian royalty income trusts are the dominant consolidator. As a result of natural decline rates and a relatively low cost of capital, most observers believe royalty income trusts will continue to be active asset gatherers. There is a continuing trend of mid-sized and larger oil and gas companies reorganizing into two new entities; a royalty income trust and an exploration and development corporation.

Royalty income trusts have had a significant impact on the oil and gas industry, including emerging and junior companies. Many junior exploration and development companies are staffed by personnel who were formerly employed by a corporation acquired by a trust. These experienced management teams often have pre-defined exit strategies that recognizes the growing royalty income trust sector.

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 ("GLJ").

GLJ used cash flow values obtained from the Reserve Reports to prepare a corporate evaluation dated February 28, 2006 of Terra Energy's oil and gas reserves (the "GLJ Report") which evaluation is effective December 31, 2005 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, 2005 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, 2005**

CONSTANT PRICES AND COSTS

RESERVES CATEGORY	RESERVES							
	LIGHT AND MEDIUM OIL		NATURAL GAS		NATURAL GAS LIQUIDS		HEAVY OIL	
	Gross (mbbl)	Net (mbbl)	Gross (mmcf)	Net (mmcf)	Gross (mbbl)	Net (mbbl)	Gross (mbbl)	Net (mbbl)
Proved								
Developed	613	567	24,154	18,113	503	386	-	-
Producing								
Developed	113	96	13,225	9,930	210	165	-	-
Non-Producing								
Undeveloped	93	77	9,547	7,359	28	22	-	-
Total Proved	819	740	46,926	35,402	740	572	-	-
Probable	292	261	27,389	20,770	263	205	-	-
Total Proved Plus Probable	1,111	1,001	74,315	56,172	1,004	778	-	-

**SUMMARY OF NET PRESENT VALUES OF FUTURE NET REVENUE
as of December 31, 2005**

CONSTANT PRICES AND COSTS

RESERVES CATEGORY	BEFORE INCOME TAXES DISCOUNTED AT (%/YEAR)					AFTER INCOME TAXES DISCOUNTED AT (%/YEAR)				
	0	5	10	15	20	0	5	10	15	20
	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)
Proved										
Developed	148,692	115,810	95,991	82,750	73,242	131,981	103,870	86,863	75,432	67,171
Producing										
Developed	73,500	63,027	55,225	49,191	44,383	48,474	41,379	36,103	32,030	28,790
Non-Producing										
Undeveloped	48,068	37,033	29,735	24,553	20,685	31,935	24,208	19,093	15,463	12,761
Total proved	270,260	215,870	180,951	156,493	138,311	212,390	169,458	142,059	122,925	108,722
Probable	159,070	111,425	85,339	68,867	57,488	105,867	73,578	55,969	44,859	37,187
Total Proved Plus Probable	429,331	327,295	266,289	225,360	195,799	318,257	243,035	198,027	167,784	145,908

**TOTAL FUTURE NET REVENUE
(UNDISCOUNTED)
as of December 31, 2005**

CONSTANT PRICES AND COSTS

Reserves Category	Revenue (M\$)	Royalties (M\$)	Operating Costs (M\$)	Development Costs (M\$)	Well Abandon- ment Costs (M\$)	Future Net Revenue Before Income Taxes (M\$)	Income Taxes (M\$)	Future Net Revenue After Income Taxes (M\$)
Proved Reserves	511,071	110,018	112,274	16,131	2,387	270,260	57,870	212,390
Proved Plus Probable Reserves	795,680	172,822	165,131	25,756	2,640	429,331	111,073	318,257

**FUTURE NET REVENUE
BY PRODUCTION GROUP
as of December 31, 2005**

CONSTANT 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>
Proved Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	24,140
	Natural Gas (including by-products but excluding solution gas from oil wells)	156,810
Proved Plus Probable Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	27,966
	Natural Gas (including by-products but excluding solution gas from oil wells)	238,323

**SUMMARY OF OIL AND GAS RESERVES
as of December 31, 2005**

FORECAST PRICES AND COSTS

<u>RESERVES CATEGORY</u>	<u>RESERVES</u>							
	<u>LIGHT AND MEDIUM OIL</u>		<u>NATURAL GAS</u>		<u>NATURAL GAS LIQUIDS</u>		<u>HEAVY OIL</u>	
	<u>Gross (mdbl)</u>	<u>Net (mdbl)</u>	<u>Gross (mmcf)</u>	<u>Net (mmcf)</u>	<u>Gross (mdbl)</u>	<u>Net (mdbl)</u>	<u>Gross (mdbl)</u>	<u>Net (mdbl)</u>
Proved								
Developed	549	506	23,331	17,411	481	369	-	-
Producing								
Developed	113	96	13,216	9,919	209	164	-	-
Non-Producing								
Undeveloped	90	75	9,582	7,386	29	23	-	-
Total Proved	<u>753</u>	<u>677</u>	<u>46,130</u>	<u>34,715</u>	<u>718</u>	<u>556</u>	<u>-</u>	<u>-</u>
Probable	<u>269</u>	<u>240</u>	<u>27,040</u>	<u>20,462</u>	<u>256</u>	<u>199</u>	<u>-</u>	<u>-</u>
Total Proved Plus Probable	<u>1,023</u>	<u>916</u>	<u>73,170</u>	<u>55,177</u>	<u>974</u>	<u>755</u>	<u>-</u>	<u>-</u>

**SUMMARY NET PRESENT VALUES OF FUTURE NET REVENUE
as of December 31, 2005**

FORECAST PRICES AND COSTS

<u>RESERVES CATEGORY</u>	<u>BEFORE INCOME TAXES DISCOUNTED AT (%/YEAR)</u>					<u>AFTER INCOME TAXES DISCOUNTED AT (%/YEAR)</u>				
	<u>0</u>	<u>5</u>	<u>10</u>	<u>15</u>	<u>20</u>	<u>0</u>	<u>5</u>	<u>10</u>	<u>15</u>	<u>20</u>
	<u>(M\$)</u>	<u>(M\$)</u>	<u>(M\$)</u>	<u>(M\$)</u>	<u>(M\$)</u>	<u>(M\$)</u>	<u>(M\$)</u>	<u>(M\$)</u>	<u>(M\$)</u>	<u>(M\$)</u>
Proved										
Developed	114,663	94,335	81,379	72,347	65,632	108,904	89,559	77,252	68,682	62,316
Producing										
Developed	66,388	58,362	52,194	47,299	43,314	43,591	38,064	33,826	30,471	27,746
Non-Producing										
Undeveloped	35,581	28,176	23,108	19,414	16,594	23,699	18,333	14,684	12,037	10,029
Total proved	<u>216,632</u>	<u>180,874</u>	<u>156,682</u>	<u>139,060</u>	<u>125,540</u>	<u>176,194</u>	<u>145,957</u>	<u>125,762</u>	<u>111,190</u>	<u>100,091</u>
Probable	<u>121,310</u>	<u>87,703</u>	<u>68,743</u>	<u>56,568</u>	<u>48,043</u>	<u>80,969</u>	<u>57,865</u>	<u>44,938</u>	<u>36,666</u>	<u>30,844</u>
Total Proved Plus Probable	<u>337,942</u>	<u>268,577</u>	<u>225,425</u>	<u>195,629</u>	<u>173,583</u>	<u>257,163</u>	<u>203,822</u>	<u>170,700</u>	<u>147,857</u>	<u>130,976</u>

**TOTAL FUTURE NET REVENUE
(UNDISCOUNTED)
as of December 31, 2005**

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	450,106	96,512	117,892	16,186	2,885	216,632	40,439	176,194
Proved Plus Probable Reserves	697,904	149,546	180,995	25,949	3,471	337,942	80,780	257,163

**FUTURE NET REVENUE
BY PRODUCTION GROUP
as of December 31, 2005**

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>
Proved Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	19,230
	Natural Gas (including by-products but excluding solution gas from oil wells)	137,452
Proved Plus Probable Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	21,840
	Natural Gas (including by-products but excluding solution gas from oil wells)	203,585

RESERVE REPORT PRICING ASSUMPTIONS

Constant Prices and Costs Employed by GLJ - December 31, 2005

GLJ employed the following pricing, exchange rate and inflation rate assumptions as of December 31, 2005 in estimating Terra Energy's reserves data using constant prices and costs.

Crude Oil and Natural Gas Prices

Year	OIL		NATURAL GAS	EDMONTON LIQUIDS PRICES		
	WTI Cushing Oklahoma (\$US/bbl)	Edmonton Par Price 40° API (\$Cdn/bbl)	(\$Cdn / mmbtu) AECO	Ethane	Butane	Propane
2006	\$61.04	\$68.27	\$9.71	\$32.92	\$50.52	\$43.69

Forecast Prices and Costs Employed by GLJ - December 31, 2005

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, 2005.

FORECAST PRICES USED IN PREPARING RESERVES DATA GLJ Petroleum Consultants

Crude Oil and Natural Gas Liquids

Price Forecast

Effective December 31, 2005

Year	WTI	Brent	Edmont	Alberta	Sask	Edmonton					US/CAN	
	Crude	Crude	on	Bow	Alberta	Cromer	Cond. &	Edmonton	Edmonton	Edmonton	Inflation	Exchange
	Oil	Oil	Light	River	Heavy	Medium	Natural	Propane	Butanes	Pentanes	%	Rate
	\$US/	\$US/	Crude	Medium	Crude	Crude	Ehtanes			Plus		
	bbl	bbl	Oil	Crude	Oil	Oil						
	(1)	(2)	(3)	(4)	(5)	(6)						\$US/\$CAN
Forecast												
2006	57.00	55.50	66.25	43.00	33.25	55.75	36.00	42.50	49.00	67.00	2.0	0.850
2007	55.00	53.50	64.00	42.50	32.75	54.25	31.25	41.00	47.25	65.25	2.0	0.850
2008	51.00	49.50	59.25	41.00	32.50	49.25	27.00	38.00	43.75	60.50	2.0	0.850
2009	48.00	46.50	55.75	39.50	32.00	45.50	25.25	35.75	41.25	56.75	2.0	0.850
2010	46.50	45.00	54.00	39.50	32.00	43.25	24.25	34.50	40.00	55.00	2.0	0.850
2011	45.00	43.50	52.25	39.75	33.50	41.00	23.25	33.50	38.75	53.25	2.0	0.850
2012	45.00	43.50	52.25	39.75	33.50	40.25	23.24	33.50	387.75	53.25	2.0	0.850
2013	46.00	44.50	53.25	40.50	34.00	40.00	23.75	34.00	39.50	54.25	2.0	0.850
2014	46.75	45.25	54.25	41.25	34.75	40.00	24.25	34.75	40.25	55.25	2.0	0.850
2015	47.75	46.25	55.50	42.25	35.25	40.25	25.00	35.50	41.00	56.50	2.0	0.850
2016	48.75	47.25	56.50	43.00	36.00	40.00	25.50	36.25	41.75	57.75	2.0	0.850
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) Bow River 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, 2005

Year	U.S.	Alberta	Alberta	Alberta	Alberta	Sask.	Sask.	British	British
	Henry Hub	AECO	Average	Aggregator	Spot	Prov.	Spot	Columbia	Columbia
	Gas Price	Spot	Plantgate	Plantgate	Sales	Gas	Sales	CanWest	Spot
	\$US/mmbtu	\$C/mmbtu	\$C/mmbtu	\$C/mmbtu	\$C/mmbtu	\$C/mmbtu	\$C/mmbtu	\$C/mmbtu	\$C/mcf
Forecast									
2006	10.50	10.60	10.35	10.25	10.35	10.50	10.50	8.50	10.40
2007	8.75	9.25	9.00	9.00	9.00	9.15	9.15	8.60	9.00
2008	7.50	8.00	7.75	7.75	7.75	7.90	7.90	7.65	7.65
2009	7.00	7.50	7.25	7.25	7.25	7.40	7.40	7.15	7.15
2010	6.75	7.20	6.95	6.95	6.95	7.10	7.10	6.85	6.85
2011	6.50	6.90	6.65	6.65	6.65	6.80	6.80	6.55	6.55
2012	6.50	6.90	6.65	6.65	6.65	6.80	6.80	6.55	6.55
2013	6.65	7.05	6.80	6.80	6.80	6.95	6.95	6.70	6.70
2014	6.75	7.20	6.95	6.95	6.95	7.10	7.10	6.85	6.85
2015	6.90	7.40	7.15	7.15	7.15	7.30	7.30	7.00	7.00
2016	7.05	7.55	7.30	7.30	7.30	7.45	7.45	7.15	7.15
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, 2005 were \$48.12/bbl for crude oil, \$9.24/mcf for natural gas and \$47.16 / bbl for natural gas liquids.

RECONCILIATION OF CHANGES IN RESERVES AND FUTURE NET REVENUE

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, 2005 against such reserves as at December 31, 2004 based on forecast price and cost assumptions.

Factors	LIGHT AND MEDIUM CRUDE OIL			HEAVY CRUDE OIL			ASSOCIATED AND NON-ASSOCIATED GAS			NATURAL GAS LIQUIDS		
	Net Proved (mdbl)	Net Probable (mdbl)	Net Proved Plus Probable (mdbl)	Net Proved (mmcf)	Net Probable (mmcf)	Net Proved Plus Probable (mmcf)	Net Proved (mdbl)	Net Probable (mdbl)	Net Proved Plus Probable (mdbl)	Net Proved (mdbl)	Net Probable (mdbl)	Net Proved Plus Probable (mdbl)
Dec. 31, 2004	1,058	166	1,224	135	43	178	17,913	6,740	24,653	460	87	547
Discoveries	-	-	-	-	-	-	5,586	3,835	9,421	22	9	31
Extensions	163	139	302	-	-	-	11,023	6,224	17,248	135	-62	73
Infill Drilling	-	-	-	-	-	-	3,621	1,425	5,046	41	15	56
Improved Recovery	-	-	-	-	-	-	217	131	349	2	11	13
Technical Revisions	-393	-66	-459	-48	-4	-52	-1,032	2,106	1,074	-50	140	90
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-79	-39	-119	-	-	-	-	-	-
Economic Factors	-	-	-	-	-	-	-	-	-	-	-	-
Production	-151	-	-151	-8	-	-8	-2,613	-	-2,613	-54	-	-54
Dec. 31, 2005	677	240	916	-	-	-	34,715	20,462	55,177	556	200	755

Future Net Revenue Reconciliation

The following table sets forth a reconciliation of Terra Energy's estimate of future net revenue discounted at 10%, attributable to net proved reserves as evaluated in the GLJ Report using constant prices and costs.

Period and Factor	(M\$)	(M\$)
	After Tax	Before Tax
Estimated Net Present Value at December 31, 2004	71,561	86,127
<i>Oil and Gas Sales During the Period Net of Production Costs and Royalties⁽¹⁾</i>	(21,090)	(21,090)
<i>Changes due to Prices, Production Costs and Royalties Related to Forecast Production⁽²⁾</i>	47,563	47,563
<i>Development Costs During the Period⁽³⁾</i>	39,431	39,431
<i>Changes In Forecast Development Costs⁽⁴⁾</i>	(45,601)	(45,601)
<i>Changes Resulting from Extensions and Improved Recovery⁽⁵⁾</i>	72,889	72,889
<i>Changes Resulting from Discoveries⁽⁵⁾</i>	27,560	27,560
<i>Changes Resulting from Acquisitions of Reserves⁽⁵⁾</i>	-	-
<i>Changes Resulting from Dispositions of Reserves⁽⁵⁾</i>	(3,000)	(3,000)
<i>Accretion of Discount⁽⁶⁾</i>	8,613	8,613
<i>Net Change in Income Taxes⁽⁷⁾</i>	(24,325)	-
<i>Changes Resulting from Technical Reserves Revisions</i>	(18,059)	(18,059)
<i>All Other Changes</i>	(13,483)	(13,483)
Estimated Net Present Value at End of Period December 31, 2005	142,059	180,951

Notes:

- (1) Company actual before income taxes, excluding G&A.
- (2) The impact of changes in prices and other economic factors on future net revenue.
- (3) Actual capital expenditures relating to the exploration, development and production of oil and gas reserves.
- (4) The change in forecast development costs for the properties evaluated at the beginning of the period.
- (5) End of period net present value of the related reserves.
- (6) Estimated as 10% of the beginning of period net present value.
- (7) The difference between forecast income taxes at beginning of period and the actual taxes for the period plus forecast income taxes at the end of the period.

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.

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.

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 both constant prices and costs and forecast prices and costs) and proved plus probable reserves (using forecast prices and costs only) to those properties evaluated in the GLJ Report.

TERRA ENERGY RESERVES

	Constant Prices and Costs		Forecast Prices and Costs	
	Proved Reserves (M\$)	Proved Plus Probable Reserves (M\$)	Proved Reserves (M\$)	Proved Plus Probable Reserves (M\$)
2006	13,387	19,818	13,387	19,818
2007	2,744	5,637	2,799	5,750
2008	-	-	-	-
2009	-	-	-	-
2010	-	-	-	-
Remaining Years	-	300	-	380
Total Undiscounted	16,131	25,756	16,186	25,949
Total Discounted at 10% per year	15,143	23,874	15,190	23,996

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.)

Terra Energy has 12 producing wells, many of which are dual-producing wells in Boudreau, producing approximately 1,100 boe/d of natural gas, crude oil and associated natural gas liquids. Production from the Boudreau area comes from several zones, including Belloy (oil), Baldonnel, Charlie Lake Halfway and Belloy (natural gas). Terra Energy holds working interests ranging from 50% to 100% on approximately 40 sections of land in Boudreau.

Terra Energy completed construction of a pipeline connecting Boudreau with Terra Energy's Red Creek gas plant to the north in October 2005. In addition to the pipeline, Terra Energy completed the construction and installation of a new gas compressor at the Red Creek plant, bringing the total plant throughput capacity to approximately 8.0 mmcf/d. All of this work has been done on a 100% basis.

The Boudreau 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. Six wells were tied into the facility (two Baldonnel gas and three Belloy oil and one well with Belloy and Charlie Lake production). The Boudreau facility is currently full and will require further expansions to handle additional volumes of production.

The Boudreau facility has compression, dehydration, oil/water separation and water disposal handling. The oil is trucked from the facility and the gas compressed and shipped to the West Coast pipeline.

Septimus (B.C.)

Terra Energy has three producing wells in Septimus, currently producing approximately 600 boe/d of natural gas and associated natural gas liquids. Production in Septimus comes the Halfway and Charlie Lake zones. Terra Energy holds working interests ranging from 50% to 100% on approximately 12 sections of land in Septimus.

In 2006, Terra Energy commenced work on a 17 km pipeline connecting Septimus to Terra Energy's existing Wilder gas plant to the north. The pipeline was completed at the end of March and was brought on commission shortly thereafter. The 6-inch pipeline currently is transporting approximately 3.5 mcmf/d of natural gas, with a total throughput capacity of approximately 10.0 mmcf/d.

Wilder (B.C.)

Terra Energy has nine producing wells in Wilder, currently producing approximately 275 boe/d of natural gas and natural gas liquids. Production in Wilder comes from several zones, including the Artex, Boundary Lake, Charlie Lake, Halfway and Belloy zones. Terra Energy has working interests ranging from 78.1% - 100% in approximately 20 sections of land in Wilder.

The Wilder gas facility is equipped with compression and dehydration. Current capacity at the Wilder gas facility is 7.0 mmcf/d, with Terra Energy owning 100% of the facility. A 17 km pipeline constructed from our Septimus field was constructed during the first quarter of 2006 which increased throughput to approximately 4.3 mmcf/d, leaving approximately 2.7 mmcf/d of remaining capacity.

Red Creek (B.C.)

Terra Energy currently has 13 producing wells in Red Creek, currently producing approximately 165 boe/d of natural gas, crude oil and natural gas liquids. Production in Red Creek comes from the Baldonnel, Artex and Bear Flat zones for natural gas and Doig zone for oil production. Terra Energy has a 100% working interest in approximately 10 sections of land in Red Creek.

The Red Creek facility is equipped with compression, dehydration, oil separation and water injections. In 2005, a new 4-inch pipeline was constructed to tie-in new wells to the underutilized Red Creek facility. In December 2005, a new 815 horsepower compressor was added to handle production from the area south of Red Creek. The compressor is capable of handling 6 mmcf/d and with additional pipeline capacity of 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.

Stoddart (B.C.)

Terra Energy has 15 producing wells in Stoddart, currently producing approximately 155 boe/d of natural gas and crude oil. Production in Stoddart comes from the Belloy zone. Terra Energy has working interests varying from 50% - 100% in approximately six sections of land in Stoddart.

The Stoddart oil/gas facility is equipped with compression, dehydration, oil separation and oil shipping capabilities. The facility also creates revenue with third party gas processing and compression.

Bow Island (AB)

Terra Energy had 21 producing wells in Bow Island. In 2005, Bow Island produced approximately 136 boe/d. All of the production from Bow Island was crude oil. As part of the Corporation's strategy of rationalizing non-core assets, Terra Energy divested all assets located in Bow Island in December 2005. Currently, Terra Energy does not have any production or reserves in Bow Island.

Ukalta (AB)

Terra Energy has three producing wells in Ukalta, currently producing approximately 166 boe/d of natural gas. Production in Ukalta comes from the Upper Mannville and Colony zones. Terra Energy's working interest vary from 63% to 100% in over 12 sections of land. All natural gas produced from Ukalta is processed at third-party facilities not owned by Terra Energy.

Dimsdale/Grande Prairie (AB)

Terra Energy currently has three producing wells in Dimsdale/Grande Prairie, currently producing approximately 65 boe/d of natural gas, crude oil and natural gas liquids. Production in Dimsdale/Grande Prairie comes from the Charlie Lake and Halfway zones. Terra Energy holds a range of working interest from 0.36% working interest in the Dimsdale Paddy A Pool Unit to 100% working interest in approximately 10 sections of land.

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 Wembly gas plant where the gas is processed and shipped to sales.

Wells

As at December 31, 2005, the Corporation had an interest in 141.0 gross (73.8 net) producing and 110.0 gross (71.3 net) non-producing oil and natural gas 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.	29.0	24.1	36.0	24.0	7.0	5.4	20.0	14.1	48.0	37.7
Alberta	18.0	6.0	54.0	19.3	1.0	0.5	9.0	4.1	20.0	9.2
Sask.	4.0	0.4	0.0	0.0	4.0	0.3	0.0	0.0	1.0	0.1
TOTAL WELLS	51.0	30.5	90.0	43.3	12.0	6.2	29.0	18.2	69.0	46.9

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, 2005 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, 2006
Alberta	46,400	23,764	2,885
Saskatchewan	97,430	80,086	-
British Columbia	3,452	3,458	7,648
TOTAL	147,282	107,302	10,533

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 Company were evaluated as at December 31, 2005 by Seaton-Jordan & Associates Ltd. ("**Seaton-Jordan**"). The estimated value of Terra Energy's net undeveloped land holdings is approximately \$20.3 million as at December 31, 2005. This valuation represents an increase of 175.2% 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, 2005, Terra Energy had the following hedges in place:

<u>Buyer</u>	<u>Buy or Floor price (\$)</u>	<u>Ceiling</u>	<u>Volume</u>	<u>Term</u>
TD Securities	\$11.13	n/a	2,000 GJ/d	Jan 1, 2006 – Mar 31, 2006
TD Securities	\$9.00	\$13.00	2,000 GJ/d	Jan 1, 2006 – Mar 31, 2006
TD Securities	\$12.00	\$14.32	1,000 GJ/d	Jan 1, 2006 – Mar 31, 2006

The fair market value of these contracts was recognized as an asset in the Corporation's audited financial statements in the amount of \$275,513 at December 31, 2005. Subsequent to year end, the Corporation crystallized a gain of \$793,970 through the purchase of offsetting commodity contracts.

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:

TERRA ENERGY RESERVES

	<u>Constant Prices and Costs</u>		<u>Forecast Prices and Costs</u>	
	<u>Proved Reserves (M\$)</u>	<u>Proved Plus Probable Reserves (M\$)</u>	<u>Proved Reserves (M\$)</u>	<u>Proved Plus Probable Reserves (M\$)</u>
2006	188	111	188	126
2007	111	81	150	67
2008	119	109	136	213
2009	134	238	399	160
2010	309	36	243	249
Remaining Years	1,526	2,065	1,769	2,656
Total Undiscounted	2,387	2,640	2,885	3,471
Total Discounted at 10% per year	1,134	1,003	1,348	1,242

Income Tax Horizon

At the end of December 31, 2005, Terra Energy had estimated income tax deductions of approximately \$110.2 million available to reduce future taxable income. Terra Energy does not expect to incur current income taxes for the year ended December 31, 2006.

Costs Incurred

The following table summarizes Terra Energy's property acquisition costs, exploration costs and development costs incurred during the financial year ended December 31, 2005.

Property Acquisitions and Capital Expenditures

Nature of cost	Amount (\$)
Exploration Costs	\$22,562,826
Development Costs	\$20,680,672
Undeveloped Land Costs	\$7,515,737
Property Acquisition Costs	\$(3,119,327)
Corporate / Other	\$367,405
Total	\$48,007,313

Exploration and Development Activities

The following table summarizes the results of exploration and development activities during the financial year ended December 31, 2005.

	Gross ⁽¹⁾	Net ⁽²⁾
Development Wells		
Gas	9.00	4.61
Oil	1.00	0.08
Dry	2.00	2.00
Exploratory Wells		
Gas	10.00	8.38
Oil	1.00	1.00
Dry	0.00	0.00
Total Wells	23.00	16.07

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 2006 by product type associated with the first year of the future net revenue estimates reported in the GLJ report effective December 31, 2005.

	Light and Medium Crude Oil (bbl/d)	Natural Gas (mcf/d)	Natural Gas Liquids (bbl/d)	BOE (boe/d)
Proved				
Developed producing	269	10,772	227	2,929
Developed non-producing	62	7,246	149	1,418
Undeveloped	58	715	7	184
Total Proved	389	18,732	383	3,894
Probable	25	2,401	31	457
Total proved plus probable	415	21,133	414	4,351

Production History

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

	2005				
	Year ended December 31, 2005	Q4 Oct. - Dec.	Q3 July - Sept.	Q2 April - June	Q1 Jan. - March
Oil (bbl/d)	488	405	474	514	563
Natural Gas Liquids (bbl/d)	192	235	209	170	151
Natural gas (mcf/d)	8,332	8,750	8,044	9,272	7,248
Total (boe/d)	2,069	2,098	2,023	2,229	1,922

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.

	2005				
	Year ended December 31, 2005	Q4 Oct. - Dec.	Q3 July - Sept.	Q2 April - June	Q1 Jan. - March
Selling prices					
Oil (\$/bbl)	\$48.12	\$41.41	\$47.45	\$45.75	\$54.15
Natural gas (\$/mcf)	\$9.24	\$12.89	\$10.07	\$6.48	\$7.20
Natural gas liquids (\$/bbl)	\$47.16	\$81.86	\$25.98	\$40.97	\$33.05
Royalties					
Oil (\$/bbl)	\$5.84	\$5.74	-\$1.97	\$14.22	\$4.91
Natural gas (\$/mcf)	\$2.08	\$2.96	\$2.27	\$1.93	\$0.95
Natural gas liquids (\$/bbl)	\$13.85	\$21.17	\$7.19	\$16.54	\$8.58
Operating expenses ⁽¹⁾					
Oil (\$/bbl)	\$17.24	\$14.92	\$22.19	\$19.75	\$11.56
Natural gas (\$/mcf)	\$2.87	\$2.49	\$3.70	\$3.29	\$1.93
Natural gas liquids (\$/bbl)	\$17.24	\$14.92	\$22.19	\$19.75	\$11.56
Field netbacks					
Oil (\$/bbl)	\$25.04	\$20.75	\$27.23	\$11.77	\$37.68
Natural gas (\$/mcf)	\$4.29	\$7.43	\$4.11	\$1.26	\$4.33
Natural gas liquids (\$/bbl)	\$16.07	\$45.77	-\$3.41	\$4.68	\$12.91

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, 2005 for each product type.

Field	Light and Medium Crude Oil (bbls/d)	Natural Gas (mcf/d)	Natural Gas Liquids (bbls/d)	BOE (boe/d)	%
Boudreau, British Columbia	79	1,640	19	370	17.9%
Wilder, British Columbia	0	1,565	69	330	15.9%
Red Creek, British Columbia	97	749	32	254	12.3%
Stoddart, British Columbia	112	230	4	154	7.4%
Bow Island, Alberta	136	-	-	136	6.6%
Ukalta, Alberta	-	795	-	133	6.4%
Dimsdale, Alberta	1	612	14	117	5.7%
Other	63	2,741	54	575	27.8%
Total	488	8,332	192	2,069	100.0%

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.

Regulatory

Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government that may be amended from time to time. See "Industry Conditions" at page 27 of this Annual Information Form.

Insurance

Terra Energy's involvement in the exploration for and development of oil and gas properties may result in Terra Energy becoming subject to liability for pollution, blow-outs, property damage, personal injury or other hazards. Although Terra Energy will obtain insurance in accordance with industry standards to address such risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not, in all circumstances be insurable or, in certain circumstances, Terra Energy may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or for other reasons. The payment of such uninsured liabilities would reduce the funds available to Terra Energy. The occurrence of a significant event that Terra Energy is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on Terra Energy's financial position, results of operations or prospects.

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 2005, 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 Saskatchewan, Alberta and British Columbia. 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 foreign governments and third parties and may require Terra Energy to incur costs to remedy such discharge. 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 both constant and 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.

Expiration of Licences and Leases

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

Permits and Licenses

The operations of Terra Energy may require licenses and permits from various governmental authorities. There can be no assurance that Terra Energy will be able to obtain all necessary licenses 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.

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 will emit a small amount of greenhouse gases which may subject Terra Energy to legislation regulating emissions of greenhouse gases. The Government of Canada has put forward a Climate Change Plan for Canada which suggests further legislation will set greenhouse gases emission reduction requirements for the various industrial activities, including oil and gas exploration and production. Future federal legislation, together with provincial emission reduction requirements, such as those proposed in Alberta's Bill 32: Climate Change and Emissions Management, 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 prorationing 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 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 licenses 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"). Under the EPEA, environmental standards and compliance for releases, clean-up and reporting are stricter and more onerous than the 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 Alberta.

Dividends

Since its incorporation, Corporation Terra Energy has not paid any dividends on its common shares. Dividends 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 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, 2005, 68,987,283 common shares and 1,148,641 preferred shares were issued and outstanding. Terra Energy has a normal course issuer bid currently underway pursuant to which it has repurchased 644,000 common shares which have not yet been cancelled. Terra Energy has also reserved a total of 6,809,388 common shares for issuance upon the exercise of outstanding stock options granted pursuant to its Stock Option Plan of which options to purchase 4,201,000 common shares were issued as of December 31, 2005. 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	
2005			
January	1.65	1.10	409,900
February	1.65	1.34	442,800
March	1.75	1.35	670,200
April	1.59	1.27	531,300
May	1.40	1.16	872,600
June	1.75	1.27	1,721,300
July	2.17	1.60	2,479,600
August	2.49	1.69	2,181,200
September	1.95	1.70	1,696,900
October	2.70	2.00	3,307,400
November	2.19	1.75	1,775,400
December	2.04	1.66	2,013,500
2006			
January	2.10	1.77	2,136,700
February	1.95	1.61	2,335,500
March	2.24	1.60	4,363,600
April 1 - 26	2.39	2.15	3,017,900

ESCROWED SECURITIES

There are no shares in Escrow at the time of this report.

DIRECTORS AND OFFICERS

As of April 26, 2006, 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	Number of Common Shares Beneficially Owned	Offices Held and Time as Director or Officer	Principal Occupation During the Last Five Years
Cas H. Morel ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾ Alberta, Canada	22,349,862	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.
Bud K. Love ⁽⁶⁾ Alberta, Canada	74,489	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 and heads Terra Energy's financial management and reporting division. Mr. Love was the Vice President, Finance and Chief Financial Officer of Rhodes Resources Corp. from October 31, 2002 to January 30, 2004 and Terrapet Energy Corp. from May 1998 to January 30, 2004, prior to their amalgamation to form Terra Energy Corp. Until February 2004, Mr. Love was the principal of BKL & Associates, a full service accounting firm he founded in 1993.
Tim Beatty ⁽⁷⁾ Alberta, Canada	258,100	Vice President, Drilling and Completions since January 30, 2004	Mr. Beatty is the Vice President Drilling, Terra Energy since January 1, 2004 and prior to that 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.
John Behr Alberta, Canada	56,000	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 to this, 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	64,800	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 from August 26, 2004. Prior to joining Terra Energy on June 1, 2004, Mr. Blair held various positions in the 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.

Name and Province and Country of Residence	Number of Common Shares Beneficially Owned	Offices Held and Time as Director or Officer	Principal Occupation During the Last Five Years
Anthony R. Harvey ⁽¹⁾⁽⁸⁾ British Columbia, Canada	100,300	Director, since January 30, 2004	Mr. Harvey is the President and founder of ARH Management Limited, a management and consulting company to the resource industry. Mr. Harvey was, until October 2000, a founder, director and senior executive of Azco Mining Inc., a resource company formed in 1988 and trading on each of the Toronto and American Stock Exchanges.
Colin P. MacDonald ⁽²⁾⁽⁹⁾ Alberta, Canada	112,000	Director since January 30, 2004	Mr. MacDonald is a partner in the Calgary offices of Borden Ladner Gervais LLP, a Canadian law firm which is a successor to the law firm Howard Mackie, a firm he joined in 1988.
Ted S. Anderson ⁽¹⁾⁽²⁾⁽¹⁰⁾ Alberta, Canada	85,000	Director since January 30, 2004	From 1978 through 2000, Mr. Anderson was President of Pioneer Land Services Ltd. Mr. Anderson, whose wealth of experience gained from 30 years of land management, has recently taken on challenge of Manager of Special Projects for Pioneer Land Services.
Robert D. Penner ⁽¹⁾ Alberta, Canada	20,000	Director since April 21, 2005	Mr. Penner is a Chartered Accountant with over 35 years of experience with one of Canada's leading accounting firms. He worked with KPMG LLP, Chartered Accountants, and its predecessor from 1965 until his retirement as a senior tax partner in 2004.
Ralph G. Evans ⁽³⁾ Alberta, Canada	76,000	Director since January 30, 2004	Mr. Evans has worked for over 40 years as a petroleum engineer and businessman in the oil and gas community in Alberta. He currently holds the position of Principal of R.G. Evans Consulting Inc. Prior to his election to the Board of Terra Energy Corp., he 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.

Notes:

- (1) Audit Committee member which committee is required pursuant to the ABCA.
- (2) Corporate Governance, Compensation and Nominating Committee member.
- (3) Engineering Reserves Committee member and Environmental and Safety Committee member.
- (4) 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.
- (5) 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.
- (6) 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.
- (7) Mr. Beatty was the Vice President, Production of Rhodes Resources Corp. from October 31, 2002 to January 30, 2004.
- (8) Mr. Harvey was a director of Rhodes Resources Corp. (and its predecessor International Choice Ventures Inc.) from May, 1988 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.

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.

CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS

Cas H. Morel, a director and the President and Chief Executive Officer of the Corporation, was a director and the President and Chief Executive Officer of Equis Energy Corp. ("**Equis**") from April 30, 1993 to November 10, 1995. On December 4, 1995, the lender to Equis issued a default notice in relation to the outstanding indebtedness of Equis, indicated that it would afford a certain amount of time for Equis to arrive at a work out. In March 1996 the lender issued a formal demand for repayment of the indebtedness, which led to the lender filing a petition for receiving order against Equis on May 17th 1996. A cease trading order was issued in June 1996 in respect of the securities of Equis for failure to file certain financial statements by the Ontario and Alberta Securities Commissions. This cease trading order was rescinded on September 13, 1996. In September 1996, an agreement was announced by Equis and Magin Energy, whereby Magin would acquire the shares of Equis. This transaction was successfully completed in October 1996. No event of bankruptcy occurred.

PROMOTERS

Cas H. Morel, the President, Chief Executive Officer and Promoter of Terra Energy, may be considered to be a promoter of Terra Energy in that he took the initiative in founding and organizing Terra Energy. See "*Directors and Officers*" and "*Interests of Management and Others in Material Transactions*". Further information regarding the compensation paid by the Corporation to Mr. Morel can be found in the Corporation's management information circular relating to the annual meeting of shareholders of the Corporation which is to be held on May 26, 2006 and is incorporated herein by reference.

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 to Note 17 to the audited financial statements of the Corporation for the year ended December 31, 2005 (the "**2005 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 interest, direct or indirect, or of any informed person of the Corporation, any proposed directors of the Corporation or any associate or affiliate of an informed person or proposed director, in any transaction since the commencement of the last fiscal year, or in any proposed transaction since the beginning of the Corporation's most recently completed financial year end being the year ended December 31, 2005 or in any proposed transaction which has materially affected or would materially affect the Corporation except as disclosed in this Annual Information Form and the 2005 Financial Statements. See "*Interest of Any Insider, Promoter or Control Person*" contained on page 9 of the Rhodes Circular and the 2004 Financial Statements which documents can be found on SEDAR at www.sedar.com and such information is incorporated herein by reference.

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.

INTERESTS OF EXPERTS

Certain information incorporated into this Annual Information Form has been taken from the GLJ Report which report has been prepared by GLJ which report has been prepared using certain information contained in the Reserve Reports. See "*Statement of Reserves Data and Other Oil and Gas Information.*" No person or Corporation whose profession or business gives authority to a statement made by such person or Corporation and who is named in the Annual Information Form as having prepared or certified a part of this Annual Information Form, or a report or valuation described in this Annual Information Form, has received or shall receive a direct or indirect interest in the property of Terra Energy or of any associate or affiliate of Terra Energy. As at the date hereof, the principals of GLJ, do not beneficially own, directly or indirectly, any of the outstanding common shares 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 May 26, 2006. Additional financial information is contained in the Corporation's comparative financial statements and management discussion and analysis for the year ended December 31, 2005. 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, 2005. The reserves data consist of the following:
 - (a) (i) proved and proved plus probable oil and gas reserves estimated as at December 31, 2005, using forecast prices and costs; and
 - (ii) the related estimated future net revenue; and
 - (b) (i) proved oil and gas reserves estimated as at December 31, 2005, using constant prices and costs; and
 - (ii) the related estimated future net revenue.
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, 2005, 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	February 27, 2006	Canada	-	\$225,425	-	\$225,425

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.

EXECUTED as to our report referred to above:

GLJ Petroleum Consultants, Calgary, Alberta, Canada, February 27, 2006

(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 consist of the following:

- (a) (i) proved and proved plus probable oil and gas reserves estimated as at December 31, 2005 using forecast prices and costs; and
- (ii) the related estimated future net revenue; and
- (b) (i) proved oil and gas reserves estimated as at December 31, 2005 using constant prices and costs; and
- (ii) the related estimated future net revenue.

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.

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.

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:

- (a) the content and filing with securities regulatory authorities of the reserves data and other oil and gas information;
- (b) the filing of the reports of the independent qualified reserves evaluator on the reserves data; and
- (c) the content and filing of this report.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

(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 Evans*"

Ralph Evans
Director

(signed) "*Cas H. Morel*"

Cas H. Morel
Director

March 3, 2006

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.