Terra Energy Corp.

Consolidated Interim Financial Statements

For the three months ended March 31, 2008

(Unaudited)

Consolidated Balance Sheets

AS AT MARCH 31 AND DECEMBER 31 (UNAUDITED)	2008	2007
Assets		
Current		
Accounts receivable	**$ 11,620,694**	$ 7,960,046
Prepaid expenses	**1,119,570**	1,076,879
	12,740,264	9,036,925
Oil and gas properties	**153,627,749**	157,024,959
	$ 166,368,013	$ 166,061,884
Liabilities and Shareholders' Equity		
Current		
Bank overdraft (NOTE 5)	**$ 3,022,843**	$ 1,828,943
Accounts payable and accrued liabilities	**15,766,209**	21,485,964
Asset retirement obligation	**254,263**	398,798
Financial instruments (NOTE 3)	**3,602,727**	567,483
	22,646,042	24,281,188
Deferred credit	**166,065**	182,670
Long-term financing (NOTE 5)	**58,173,279**	54,631,003
Asset retirement obligation	**4,878,453**	5,166,555
Future income taxes	**12,520,943**	12,933,520
	98,384,782	97,194,936
Shareholders' Equity		
Share capital and warrants (NOTE 6)	**65,769,045**	65,195,721
Contributed surplus (NOTE 7)	**9,357,817**	9,365,272
Deficit	**(7,143,631)**	(5,694,045)
	67,983,231	68,866,948
	$ 166,368,013	$ 166,061,884

Subsequent event (NOTE 9)

Approved on behalf of the Board:

Theodore Anderson, Director

Robert Penner, Director

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Operations, Comprehensive Income Loss and Deficit

FOR THE THREE MONTHS ENDED MARCH 31, (UNAUDITED)	2008	2007
Revenue		
Petroleum and natural gas	**$ 20,255,411**	$ 10,384,124
Realized gain (loss) on financial instruments (NOTE 3)	**(254,137)**	309,093
Unrealized loss on financial instruments (NOTE 3)	**(3,035,244)**	(2,846,646)
	16,966,030	7,846,571
Royalties	**(4,739,441)**	(2,222,705)
	12,226,589	5,623,866
Expenses		
Production	**4,711,730**	3,120,330
General and administrative	**1,020,245**	1,249,055
Accretion of asset retirement obligation	**118,971**	111,517
Stock based compensation	**463,173**	316,851
Depletion and amortization	**6,196,653**	3,375,514
Interest on long-term debt	**882,532**	635,376
Unrealized foreign exchange loss	**336,420**	–
Realized foreign exchange loss	**6,740**	–
	13,736,464	8,808,643
Loss before income taxes	**(1,509,875)**	(3,184,777)
Income tax expense		
Current tax	**3,605**	–
Future tax recovery	**(412,577)**	(1,016,359)
	(408,972)	(1,016,359)
Net loss and comprehensive loss for the period	**(1,100,903)**	(2,168,418)
Deficit, beginning of period	**(5,694,045)**	(3,477,604)
Repurchase of common shares (NOTE 6)	**(348,683)**	(171,375)
Deficit , end of period	**$ (7,143,631)**	$ (5,817,397)
Loss per share (NOTE 6)		
Basic	**$ (0.01)**	$ (0.03)
Diluted	**$ (0.01)**	$ (0.03)

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

FOR THE THREE MONTHS ENDED MARCH 31, (UNAUDITED)	**2008**	2007
Cash flows from operating activities		
Net loss for the period	**$ (1,100,903)**	$ (2,168,418)
Items not affecting cash:		
Future income taxes	**(412,577)**	(1,016,359)
Accretion	**118,971**	111,517
Stock based compensation	**463,173**	316,851
Unrealized loss on financial instruments (Note 3)	**3,035,244**	2,846,646
Unrealized loss on foreign exchange	**336,420**	–
Asset retirement obligations settled	**(94,513)**	–
Amortization of deferred credit	**(16,605)**	(16,606)
Depletion, depreciation and amortization	**6,196,653**	3,375,514
	8,525,863	3,449,145
Changes in non-cash working capital from operations (Note 8)	**(5,617,996)**	(162,496)
	2,907,867	3,286,649
Cash flows from financing activities		
Proceeds from long-term financing	**3,205,856**	11,637,958
Increase (decrease) in bank overdraft	**1,193,900**	(6,649,942)
Issuance of common shares, net of issuance costs	**767,048**	(3,084)
Repurchase of common shares	**(1,013,035)**	(1,767,071)
	4,153,769	3,217,861
Cash flows from investing activities		
Additions to oil and gas properties	**(9,269,624)**	(8,437,014)
Disposition of oil and gas properties	**6,013,086**	–
Changes in non-cash working capital from investing (Note 8)	**(3,805,098)**	1,932,504
	(7,061,636)	(6,504,510)
Increase (decrease) in cash and cash equivalents	**–**	–
Cash and cash equivalents, beginning of period	**–**	–
Cash and cash equivalents, end of period	**$ –**	$ –

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

NOTE. 1 Basis of Presentation

The interim financial statements of the Terra Energy Corp. (the" Company") have been prepared by management in accordance with Canadian generally accepted accounting principles and are consistent with the presentation and disclosure in the audited consolidated financial statements and notes thereto for the year ended December 31, 2007 except for the changes described in note 2. The interim consolidated financial statements do not conform in all respects to the requirements of GAAP for annual financial statements. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2007

The preparation of interim financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the interim financial statements and accompanying notes. Actual results could differ from those estimates. The interim financial statements have, in management's opinion, been properly prepared using careful judgements within reasonable limits of materiality.

NOTE. 2 Adoption of New Policies

Financial Instruments

On January 1, 2008, the Company adopted the following new CICA Handbook Sections, which were effective for interim periods beginning on or after October 1, 2007:

Section 3862 – "Financial Instruments – Disclosures", describes the required disclosure for the assessment of the significance of financial instruments to an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. This section and Section 3863, Financial Instruments – Presentation" replaced Section 3861, "Financial Instruments – Disclosure and Presentation".

Section 3863 – "Financial Instruments – Presentation", establishes standards for presentation of financial instruments and non-financial derivatives.

Section 1535 – "Capital Disclosures", establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure requirements of the entity's objectives, policies and processes for managing capital, the quantitative data relating to what the entity regards as capital, whether the entity has complied with capital requirements, and, if it has not complied, the consequences of such non-compliance.

The CICA has amended Section 1400, "General Standards of Financial Statement Presentation", which is effective for interim periods beginning on or after January 1, 2008, to include requirements to assess and disclose the Company's ability to continue as a going concern. The adoption of this new section will not have an impact on the financial statements.

NOTE. 3 Financial and Capital Management

The Company is exposed to financial risk in a range of financial instruments including accounts receivable, accounts payable, bank overdraft and long term financing. The Company manages its exposure to financial risks by operating in a manner that minimizes its exposure to the extent practical. The main financial risks affecting the Company are discussed below:

Credit Risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. The majority of the Company's financial assets at the balance sheet date arise from crude oil, natural gas liquids and natural gas sales. Industry standard dictates that commodity sales are settled on the 25th day of the month following the month of production. The Company markets its oil and natural gas to several marketers so that the exposure to any one entity is minimized. In addition, when joint operations are conducted on behalf of a joint venture partner relating to capital expenditures, costs of such operations are paid for in advance to the Company by way of a cash call by the partner of the operation being conducted.

Joint venture receivables are generated from conducting joint operating or capital operations with joint venture partners. Collections from these operations are usually paid within three months of the joint venture bill being issued to the partner. Circumstances can arise which extend the terms of collection beyond this period as specific items on these joint venture billings need to be resolved between partners. Smaller partners may be cash called to pay for their share of costs in advance of a project as well. The Company has the ability to take measures such as withholding production volumes as recourse for collections on receivables as well. The Company monitors receivables accounts and actively pursues collection and payment. If any accounts are considered impaired they will be charged to an allowance for doubtful accounts. At March 31, 2008 no allowance for doubtful accounts was recorded.

The Company assesses quarterly if there should be any impairment of the financial assets of the Company. During the three month period ended March 31, 2008 there was no impairment required on any of the financial assets of the Company due to historical success of collecting receivables. The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The carrying value of accounts receivable approximates its fair value due to the relatively short periods to maturity on this instrument. The maximum exposure to credit risk is represented by the carrying amount on the balance sheet. There are no material financial assets that the Company considers past due and at risk of collection.

Foreign Exchange Risk

The prices received by the Company for the production of crude oil, natural gas and natural gas liquids are primarily determined in reference to U.S. dollars but are settled with the Company in Canadian dollars. The Company's cash flow from commodity sales will therefore be impacted by fluctuations in foreign exchange rates.

Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk as it borrows funds at floating interest rates as disclosed in Note 5. The Company currently does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate fluctuations.

A 1% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. Assuming all other variables remain constant, a 1% increase or decrease in interest rates would have impacted earnings of the Company during the three month period ended March 31, 2008 by approximately $101,247. The Company considers this risk to be limited and therefore does not hedge its interest rate risk.

Commodity Price Risk

The Company is exposed to fluctuations in commodity prices for crude oil, natural gas and natural gas liquids. Commodity prices are affected by many factors including supply and demand. The Company monitors these risks and when appropriate, utilizes financial instruments to manage its exposure to these risks.

The Company had the following outstanding derivative contracts, the terms of which are summarized below:

Contract Type	Floor Price	Ceiling Price	Volumes Per Day	Contract Term
Financial	Sell $92.00 per Bbl	N/A	100 Bbls	January 1, 2008 to December 31, 2008
Financial	Sell $95.00 per Bbl	N/A	100 Bbls	February 1, 2008 to December 31, 2008
Financial	Sell $90.55 US per Bbl	N/A	200 Bbls	January 1, 2009 to December 31, 2009
Financial	Sell $8.23 per GJ	N/A	2,000 GJ	October 1, 2008 to December 31, 2008
Financial	Sell $7.55 per GJ	N/A	5,000 GJ	July 1, 2008 to September 30, 2008
Financial	Sell$ 8.40 per GJ	N/A	4,000 GJ	January 1, 2009 to March 31, 2009
Financial	Sell $7.66 per GJ	N/A	2,000 GJ	April 1, 2008 to June 30, 2008
Financial	Sell $7.84 per GJ	N/A	2,000 GJ	July 1, 2008 to September 30, 2008
Financial	Sell $8.60 per GJ	N/A	2,000 GJ	January 1, 2009 to March 31, 2009
Financial	Sell $8.60 per GJ	N/A	1,000 GJ	January 1, 2009 to March 31, 2009
Financial	Sell $8.00 per GJ	N/A	5,000 GJ	October 1, 2008 to December 31, 2008

The mark to market adjustment of these contracts, based on price quotation in an active market, has been recognized as a liability in the amount of $3,602,727 at March 31, 2008. (December 31, 2007 – $567,483).

Liquidity Risk

Liquidity risk includes the risk that, as a result of the Company's operational liquidity requirements:

– The Company will not have sufficient funds to settle a transaction on the due date;

– The Company will be forced to sell financial assets at a value which is less than what they are worth; or

The Company's operating cash requirements, including amounts projected to complete the Company's existing capital expenditure program, are continuously monitored and adjusted as input variables change. These variables include but are not limited to, available credit, oil and natural gas production from existing wells, results from new wells drilled, commodity prices, cost overruns on capital projects and regulations relating to prices, taxes, royalties, land tenure, allowable production and availability of markets. As these variables change, liquidity risks may necessitate the Company to conduct equity issues or obtain project debt financing. The Company also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses.

Following is a list of the financial liabilities at March 31, 2008 and their due dates:

	Total	Current Within 1 Year	Within 1 to 2 Years
Bank Overdraft	3,022,843	3,022,843	-
Accounts payable and accrued liabilities	15,766,209	15,766,209	-
Financial instruments	3,602,727	3,602,727	-
Long-term financing	58,173,279	-	58,173,279
Total	80,565,058	22,391,779	58,173,279

Capital Management

The Company's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company's objective is met by retaining adequate equity to provide for the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements. The Board of Directors does not establish quantitative return on capital criteria for management. The Company defines capital as the aggregate of total equity, cash and debt.

The Company is not subject to any externally imposed cash flow requirements other than covenants on its operating credit facility with its lender. At March 31, 2008 the company was in compliance with its financial covenants.

NOTE. 4 Related Party Transactions

Except as disclosed elsewhere in these consolidated financial statements, the Corporation had the following related party transactions:

a) The Corporation entered into transactions with the following related parties:

Rhodes Petroleum Corp. – controlled by an officer of the Corporation

Pioneer Land Services Ltd. – a Director is an employee of Pioneer

Borden Ladner Gervais LLP – a Director is partner with the law firm

Fasken Martineau DuMoulin LLP – in 2006 the Corporate Secretary was a partner with the law firm

b) Transactions

	2008	2007
Expenses		
Consulting – Pioneer Land Services Ltd.	**$ –**	$ 209
Legal Consulting – Borden Ladner Gervais LLP	**42,749**	154,648
	$ 42,749	$ 154,857
Other		
Recorded as part of Oil and Gas Properties – Pioneer Land Services Ltd	**$ 8,463**	$ 5,685
Recorded as part of Share issuance cost – Borden Ladner Gervais LLP	**–**	3,084
Recorded as part of Oil and Gas Properties – Borden Ladner Gervais LLP	**4,490**	–
Recorded as part of Oil and Gas Properties – Rhodes Petroleum Corp.	**23**	–
	$ 12,976	$ 8,769

c) Revenue and expense transactions are in the normal course of operations and have been valued in these consolidated financial statements at the exchange amount which is the amount of consideration established and agreed to by the related parties and represents actual values charged to related parties.

NOTE. 5 Long-term Financing

The Corporation has a revolving line of credit, with a syndicate of chartered banks, of up to $70 million (2006 - $55 million), which bears interest at prime plus 0.50% (2007 – 0.25%). The facility is secured by a general security agreement, a floating charge debenture in the amount of $150 million and an unlimited liability guarantee by Terra Energy Corp. and Constar Resources Ltd. At March 31, 2008, the Corporation was indebted on the revolving line of credit in amount of $58,173,279 (December 31, 2007 - $54,631,003). The outstanding cheques issued in the amount of $3,022,843 are shown as bank overdraft until they clear against the revolving line.

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

NOTE. 6 Share Capital

a) Authorized

i) Unlimited number of common voting shares

ii) Unlimited number of preferred shares

b) Issued and outstanding

	MARCH 31, 2008		DECEMBER 31, 2007	
	Number of Shares	**Amounts**	Number of Shares	Amounts
Common shares				
Balance, beginning of period	**74,297,484**	**$65,195,721**	76,900,833	$ 72,570,457
Issued on exercise of options	**700,600**	**767,048**	206,000	214,480
Tax effect of flow through share renouncement	–	–	–	(5,106,725)
Reclassification of contributed surplus (note 7)	–	**470,628**	–	90,067
Shares repurchased for cancellation	**(757,100)**	**(664,352)**	(2,809,349)	(2,571,459)
Share issue costs	–	–	–	(1,099)
Balance, end of period	**74,240,984**	**65,769,045**	74,297,484	65,195,721
Share purchase warrants				
Balance, beginning of period	–	–	1,093,700	434,258
Expired	–	–	(1,093,700)	(434,258)
Balance, end of period	–	–	–	–
Total Common Shares and Warrants	**74,240,984**	**$65,769,045**	74,297,484	$ 65,195,721

During 2006 and 2007, the Corporation obtained permission from the TSX Venture Exchange for a Normal Course Issuer Bid to repurchase for cancellation up to 10,000,000 common shares (5.0 million per year).

In the three month period ended March 31, 2008, the Corporation purchased 757,100 common shares for total costs of $1,013,035, at an average price of $1.34 per common share. Share capital was reduced by $664,352 and the excess of $348,683 was charged to deficit.

Of the repurchased shares, 389,849 were being held for cancellation at March 31, 2008 (December 31, 2007 – 477,849).

c) Stock Options

The Corporation's Employee Stock Option Plan provides for officers, directors, employees, and consultants to be granted options of up to 10 percent of the issued and outstanding common shares of the Corporation. These options entitle the holder to purchase common shares of the Corporation subject to various vesting periods and other terms and conditions specified in the stock option plan.

Details of all options outstanding at March 31, 2008 are as follows:

	MARCH 31, 2008	
	Number of Options	Weightedaverage exercise price
Employee Stock Options		
Balance, beginning of period	**6,693,000**	**1.35**
Granted	**716,600**	**1.43**
Exercised	**(700,600)**	**(1.09)**
Expired	**(1,000)**	**(1.36)**
Total Options, balance, end of period	**6,708,000**	**1.39**

For stock options granted to employees compensation expense of $463,173 has been recorded for the three months ended March 31, 2008 (2007 - $316,851) with the offsetting credit to contributed surplus. The fair value of share options granted in the period was estimated using the Black Scholes option-pricing model with the following assumptions: Dividend yield Nil; expected volatility at 50%; risk-free interest rate of 4.0%; weighted average term of 2.3 years.

d) Per share amounts

The following table summarizes the calculation of basic net loss and diluted net loss per share.

	2008	2007
Net loss available to common shareholders	**$(1,100,903)**	$(2,168,418)
Weighted-average number of common shares outstanding - basic	**74,080,013**	75,822,011
Dilutive effect of stock options	**–**	–
Dilutive effect of warrants	**–**	–
Weighted-average number of common shares outstanding– diluted	**74,080,013**	75,822,011
Net loss per share ($/share)		
Basic	**$ (0.01)**	$ (0.03)
Diluted	**$ (0.01)**	$ (0.03)

For 2008, 6,708,000 stock options (2007 – 5,836,000) and Nil warrants (2007 – 3,750,000) were anti-dilutive and have been excluded from the calculation of diluted loss per share.

NOTE. 7 Contributed Surplus

The details of contributed surplus are as follows:

	2008	2007
Balance, beginning of period	**$ 9,365,272**	$ 7,838,602
Stock based compensation	**463,173**	1,182,479
Warrants expired	**–**	434,258
Reclassification resulting from exercise of options and warrants to common shares	**(470,628)**	(90,067)
Balance, end of period	**$ 9,357,817**	$ 9,365,272

NOTE. 8 Statement of Cash Flows

Change in non-cash working capital

	2008	2007
Accounts receivable	**$(3,660,648)**	$ (69,358)
Prepaid expenses	**(42,691)**	24,908
Accounts payable and accrued liabilities	**(5,719,755)**	1,814,458
	(9,423,094)	1,770,008
Change in non-cash working capital from investing	**(3,805,098)**	1,932,504
Change in non-cash working capital from operations	**(5,617,996)**	(162,496)
	$(9,423,094)	$ 1,770,008

Other information

	2008	2007
Interest paid	**$ 781,206**	$ 635,376
Taxes paid	**$ 3,605**	$ –

NOTE. 9 Subsequent Event

On May 13 the Corporation sold approximately 110 sections of Montney petroleum and natural gas rights in North East British Columbia for gross proceeds received of $65.2 million. The closing on one section of mineral rights remains outstanding and is expected to be finalized once certain conditions are met.