



Terra Energy Corp.
Consolidated Financial Statements
For the three months ended March 31, 2010

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Terra Energy Corp.
Consolidated Balance Sheets

As at March 31 and December 31, (unaudited)
(\$ thousands)

	2010	2009
Assets		
Current		
Accounts receivable	\$ 13,563	\$ 15,519
Prepaid expenses	3,136	2,706
Other assets (Note 4)	900	740
Financial instruments (Note 2)	240	-
	17,839	18,965
Oil and gas properties	221,374	203,516
	\$ 239,213	\$ 222,481
Liabilities and Shareholders' Equity		
Current		
Bank overdraft (Note 6)	\$ 4,004	\$ 2,007
Accounts payable and accrued liabilities	25,384	17,921
Current portion of capital lease obligation (Note 5)	310	310
Asset retirement obligation	1,183	1,174
Financial instruments (Note 2)	2,109	154
	32,990	21,566
Deferred credit	33	50
Long-term financing (Note 6)	37,703	54,390
Capital lease obligation (Note 5)	925	975
Asset retirement obligation	9,248	8,921
Future income taxes	21,619	21,776
	102,518	107,678
Shareholders' Equity		
Share capital (Note 7)	105,952	84,636
Warrants (Note 7)	3,253	3,253
Contributed surplus (Note 8)	11,840	11,402
Retained earnings	15,350	15,529
Accumulated other comprehensive income (loss)	300	(17)
	136,695	114,803
	\$ 239,213	\$ 222,481

Approved on behalf of the Board

(signed) Theodore Anderson
Theodore Anderson
Director

(signed) Robert Penner
Robert Penner
Director

Terra Energy Corp.
Consolidated Statements of Operations and Retained Earnings

For the three months ended March 31, (unaudited)
(\$ thousands, except per share amounts)

	2010	2009
Revenue		
Petroleum and natural gas	\$ 24,245	\$ 16,236
Realized gain on financial instruments (Note 2)	288	-
Unrealized loss on financial instruments (Note 2)	(1,956)	-
	22,577	16,236
Royalties	(4,663)	(3,447)
	17,914	12,789
Expenses		
Production	6,346	5,067
General and administrative	1,715	1,139
Accretion of asset retirement obligation	215	114
Stock based compensation (Note 7)	491	837
Depletion, depreciation and amortization	8,768	6,464
Interest on long-term debt	604	128
Unrealized foreign exchange (gain) loss	(240)	1
Realized foreign exchange gain	(72)	-
	17,827	13,750
Income (loss) before income taxes and other income	87	(961)
Gain on disposition of other assets (Note 4)	63	-
Income (loss) before income taxes	150	(961)
Income tax expense (recovery)		
Future tax	155	(37)
	155	(37)
Net loss	(5)	(924)
Retained earnings, beginning of period	15,529	16,917
Repurchase of common shares (Note 7)	(174)	(782)
Retained earnings, end of period	\$ 15,350	\$ 15,211
Income per share (Note 7)		
Basic	\$ -	\$ (0.01)
Diluted	\$ -	\$ (0.01)

Terra Energy Corp.
Consolidated Statement of Comprehensive Income (Loss) and
Accumulated Other Comprehensive Income (Loss)

For the three months ended March 31, (unaudited)

<i>(\$ thousands)</i>	2010	2009
Net loss	\$ (5)	\$ (924)
Other comprehensive income		
Unrealized gain on other assets, net of tax (Note 4)	372	-
Realized gain on other assets transferred to income (net of tax of \$8)	(55)	-
Comprehensive income (loss)	\$ 312	\$ (924)
Accumulated other comprehensive loss, beginning of period	(17)	-
Other comprehensive income	317	-
Accumulated other comprehensive income, end of period	\$ 300	\$ -

Terra Energy Corp.
Consolidated Statements of Cash Flows

For the three months ended March 31, (unaudited)

(\$ thousands)	2010	2009
Cash flows from operating activities		
Net loss for the year	\$ (5)	\$ (924)
Items not affecting cash:		
Future income tax expense (recovery)	155	(37)
Accretion of asset retirement obligation	215	114
Stock based compensation	491	837
Unrealized loss on financial instruments (Note 2)	1,956	-
Unrealized (gain) loss on foreign exchange (Note 2)	(240)	1
Gain on disposition of other assets (Note 4)	(63)	-
Asset retirement obligations settled	(313)	(163)
Amortization of deferred credit	(17)	(17)
Depletion and amortization	8,768	6,464
	10,947	6,275
Changes in non-cash working capital from operations (Note 9)	2,858	2,534
	13,805	8,809
Cash flows from financing activities		
Proceeds from (repayment of) long-term financing	(16,687)	12,003
Increase (decrease) in bank overdraft	1,997	(869)
Repayment of capital lease obligation	(50)	-
Issuance of common shares, net of issuance costs	21,151	180
Repurchase of common shares	(420)	(3,150)
	5,991	8,164
Cash flows from investing activities		
Additions to oil and gas properties	(19,429)	(12,667)
Acquisition of oil and gas properties	(6,764)	-
Disposition (additions) to other assets	266	(173)
Changes in non-cash working capital from investing (Note 9)	6,131	(4,133)
	(19,796)	(16,973)
Increase (decrease) in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of period	-	-
Cash and cash equivalents, end of period	\$ -	\$ -

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Notes to Consolidated Financial Statements
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Tabular amounts in thousands, except per share amounts

I. BASIS OF PRESENTATION

The interim financial statements of Terra Energy Corp. (the "Corporation") have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and followed the same accounting policies as the audited consolidated financial statements and notes thereto for the year ended December 31, 2009. 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, 2009.

The interim consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, including Constar Resources Ltd., Tecton Energy Canada Ltd., Petra Energy Corp., and Terra Energy Partnership. The latter is a general partnership between Terra Energy Corp. and Constar Resources Ltd.

The preparation of interim financial statements in accordance with Canadian GAAP 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.

2. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

The Corporation is exposed to financial risk on a range of financial instruments including accounts receivable, other assets, capital lease obligations, accounts payable and accrued liabilities, bank overdraft, long term financing and financial derivative contracts. The Corporation 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 Corporation for the three month period ended March 31, 2010 are discussed below. A complete discussion can be found in the audited consolidated financial statements and notes for the year ended December 31, 2009.

Credit Risk

During the period ended March 31, 2010, there was no allowance for doubtful accounts recorded due to historical success of collecting receivables. The Corporation does not have any significant credit risk exposure with respect to accounts receivable 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 Corporation considers past due and at risk of collection.

Interest Rate Risk

At March 31, 2010, the increase or decrease in net income before taxes for each 1% change in interest rates on floating rate debt amounts to approximately \$377,000 (December 31, 2009 – \$544,000) per annum.

Terra Energy Corp.
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Commodity Price Risk

The Corporation had the following outstanding financial instruments at March 31, 2010:

Contract Type	Price	Volumes per day	Contract Term
Financial	Buy \$5.37 per GJ	5,000 GJ	April 1, 2010 to October 31, 2010
Financial	Sell \$0.39 basis per mmbtu	12,000 mmbtu	April 1, 2010 to October 31, 2010

The mark to market adjustment of these contracts has been recognized as a liability of \$2,109,789 at March 31, 2010 (December 31, 2009 – \$153,889). A \$0.10 increase in the natural gas price would result in a change of \$107,000 to the mark to market adjustment. A \$0.01 increase in AECO basis would result in a change of \$25,000 to the mark to market adjustment.

Subsequent to March 31, 2010, the Corporation entered into additional financial instruments (See Note 10).

Liquidity Risk

Following is a list of the financial liabilities at March 31, 2010 and their contractual maturities:

	Total	Current Within 1 Year	Within 1 to 3 Years	Within 4 to 5 Years
Bank overdraft	\$ 4,004	\$ 4,004	\$ -	\$ -
Accounts payable and accrued liabilities	25,384	25,384	-	-
Financial instruments	2,109	2,109	-	-
Office lease	308	308	-	-
Long-term financing ⁽¹⁾	37,703	-	37,703	-
Gathering and processing contracts	23,938	5,952	11,580	6,406
Capital lease obligation (Note 5)	1,350	321	1,029	-
Total	\$ 94,796	\$ 38,078	\$ 50,312	\$ 6,406

⁽¹⁾ Excludes any interest related costs

Foreign Exchange Risk

At March 31, 2010, the Corporation held a foreign exchange contract to sell \$10 million USD at an exchange rate of 1.0526 until January, 2012. The mark to market adjustment of this contract has been recognized as an asset of \$240,785 at March 31, 2010 (December 31, 2009 – nil). A \$0.01 increase in the exchange rate would result in a change of \$92,000 to the mark to market adjustment.

Subsequent to March 31, 2010, the Corporation entered into additional financial instruments (See Note 10).

Fair Value

The carrying values of the financial assets and financial liabilities approximate their fair value due to the short term to maturity of these instruments. The Corporation categorizes its financial instruments carried at fair value into one of three different levels depending on the observability of the inputs employed in the measurement.

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The following table includes all the fair value measurements recognized in the balance sheet at March 31, 2010:

	Level 1	Level 2	Level 3	Total
Bank overdraft	\$ (4,004)	\$ -	-	\$ (4,004)
Other assets	900	-	-	900
Derivative contracts	-	(1,869)	-	(1,869)
	\$ (3,104)	\$ (1,869)	-	\$ (4,973)

There have been no transfers between levels during the three month period ended March 31, 2010.

Capital Management

The Corporation defines capital as the aggregate of total equity, bank overdraft and long-term financing less cash and cash equivalents, which at March 31, 2010 was \$178,402,777 (December 31, 2009 - \$171,200,325). There were no changes to the Corporation's objective for managing capital since December 31, 2009.

The Corporation is subject to covenants on its operating credit facility with its lender. At March 31, 2010, the Corporation was in compliance with these financial covenants.

3. 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:

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

- b) Transactions

	2010	2009
Expenses		
Legal Consulting – Borden Ladner Gervais LLP	\$ 77	\$ 146
Other		
Recorded as part of Oil and Gas Properties – Borden Ladner Gervais LLP	\$ 24	\$ -

Related party 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 unrelated parties. At March 31, 2010, the Corporation had \$99,080 (December 31, 2009 – \$61,000) owing to related parties.

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4. OTHER ASSETS

At March 31, 2010, the Corporation held 3,748,900 common shares of a publicly traded company representing approximately 6% of the outstanding shares of the company. The Corporation has classified the investment as an "available for sale" financial asset with any changes in fair value being recognized in other comprehensive income. During the period ended March 31, 2010, the Corporation sold 1,355,500 shares and recognized a gain of \$63,264 in net income. For the period ended March 31, 2010, an unrealized gain of \$372,915 (net of tax of \$53,274) was recognized in other comprehensive income. The net change to the fair value of the financial asset recognized on the Balance Sheet was \$159,598 (December 31, 2009 - \$20,149).

5. CAPITAL LEASE OBLIGATIONS

At March 31, 2010, future minimum lease payments consist of the following:

2010	\$	321
2011		1,029
		1,350
Less amount representing interest		(115)
		1,235
Current portion		(310)
	\$	925

6. LONG-TERM FINANCING

The Corporation has a revolving line of credit, with a syndicate of chartered banks, of up to \$80 million (December 31, 2009 - \$80 million), which bears interest at prime plus 1.6% (December 31, 2009 – prime plus 2.1%). 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, 2010, the revolving line of credit was drawn down \$37,703,698. Outstanding cheques issued in the amount of \$4,003,892 are shown as bank overdraft until they clear against cash.

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. 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 would be due and payable upon demand.

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7. SHARE CAPITAL

a) Authorized

- i) Unlimited number of common voting shares
- ii) Unlimited number of preferred shares

b) Common Shares issued and outstanding

	March 31, 2010		December 31, 2009	
	Number of Shares	Amounts	Number of Shares	Amounts
Common shares				
Balance, beginning of period	87,989	\$ 84,636	74,886	\$ 67,880
Issued on business combination	-	-	2,581	3,794
Issued on equity financing	11,250	21,426	14,000	16,000
Issued on exercise of options	61	82	313	316
Reclassification of contributed surplus (Note 8)	-	53	-	118
Shares purchased for cancellation	(255)	(245)	(3,791)	(3,472)
Balance, end of period	99,045	\$ 105,952	87,989	\$ 84,636

On March 24, 2010, the Corporation closed a “bought-deal” financing agreement of 5 million common shares at \$1.80 per common share and 6.25 million flow-through common shares at \$2.16 per flow-through common share, for aggregate gross proceeds of \$22,500,000. The total costs related to the issuance were \$1,073,625 (net of tax of \$357,875).

On June 9, 2008, the Corporation obtained permission from the TSX Venture Exchange for a Normal Course Issuer Bid to repurchase for cancellation up to 3,700,000 common shares from June 9, 2008 to June 9, 2009. On August 26, 2009, the Corporation obtained permission from the Toronto Stock Exchange for a Normal Course Issuer Bid to repurchase for cancellation up to 4,442,099 common shares from August 28, 2009 to August 27, 2010.

In the three month period ended March 31, 2010, the Corporation purchased 255,300 common shares for total costs of \$419,700, at an average price of \$1.64 per common share. Share capital was reduced by \$245,572 and the excess of \$174,128 was charged to retained earnings.

Of the purchased shares, 11,000 were being held for cancellation at March 31, 2010 (December 31, 2009 – 97,300).

c) Warrants

	March 31, 2010		December 31, 2009	
	Number	Amounts	Number	Amounts
Warrants				
Balance, beginning of period	7,000	\$ 3,253	-	\$ -
Issued on equity financing	-	-	7,000	3,253
Balance, end of period	7,000	\$ 3,253	7,000	\$ 3,253

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d) Stock Options

Details of all options outstanding at March 31, 2010 are as follows:

	Number of Options	Weighted average exercise price
Employee Stock Options		
Balance, beginning of period	8,062	1.48
Granted	1,145	1.54
Exercised	(61)	(1.33)
Expired	(450)	(1.44)
Balance, end of period	8,696	1.49

e) Stock Based Compensation

For stock options granted to employees, compensation expense of \$491,094 has been recorded for the three months ended March 31, 2010 (2009 - \$837,001) with the offsetting charge to contributed surplus. The fair value of stock options granted in the period was estimated using a Black-Scholes option-pricing model with the following assumptions: Dividend yield Nil (2009 – Nil); expected volatility of 69% (2009 – 72% to 73%); risk-free interest rate of 2.0% (2009 – 2%); weighted average term of 3.3 years (2009 – 4.6 years).

For options granted during the period, the estimated fair value expected to be recognized over the vesting period is approximately \$828,630 (2009 - \$1,240,379).

f) Per share amounts

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

	2010	2009
Net loss available to common shareholders	\$ (5)	\$ (924)
Weighted-average number of common shares outstanding – basic	88,786	73,588
Dilutive effect of stock options	-	-
Weighted-average number of common shares outstanding – diluted	88,786	73,588
Net income per share (\$/share)		
Basic	-	(0.01)
Diluted	-	(0.01)

For the three months ended March 31, 2010, 8,696,000 stock options (2009 – 6,599,200) and 7,000,000 warrants were anti-dilutive and have been excluded from the calculation of diluted income per share.

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8. CONTRIBUTED SURPLUS

The details of contributed surplus are as follows:

	2010	2009
Balance, beginning of period	\$ 11,402	\$ 9,681
Stock based compensation	491	1,839
Reclassification resulting from exercise of options and warrants to common shares	(53)	(118)
Balance, end of period	\$ 11,840	\$ 11,402

9. SUPPLEMENTAL CASH FLOW INFORMATION

	2010	2009
Change in non-cash working capital		
Accounts receivable	\$ 1,956	\$ 1,768
Prepaid expenses	(430)	(213)
Accounts payable and accrued liabilities	7,463	(3,154)
	8,989	(1,599)
Change in non-cash working capital from investing	6,131	(4,133)
Change in non-cash working capital from operations	2,858	2,534
	\$ 8,989	\$ (1,599)
Other information		
Interest paid	\$ 534	\$ 96
Taxes paid	\$ -	\$ -

10. SUBSEQUENT EVENTS

- a) Subsequent to March 31, 2010, the Corporation entered into the following financial commodity contract, which in effect offsets a "Sell" contract in place at March 31, 2010:

Contract Type	Price	Volumes per day	Contract Term
Financial	Buy \$0.39 basis per mmbtu	12,000 mmbtu	April 1, 2010 to October 31, 2010

- b) Subsequent to March 31, 2010, the Corporation entered into a foreign exchange contract to sell \$7 million USD at an exchange rate of 1.0152 until May, 2011.