



Q2
2004

Six months ended
June 30, 2004

**Terra Energy Corp.
Consolidated Interim Financial Statements
For the period ended June 30, 2004
(Unaudited – prepared by management)**

Contents

Consolidated Interim Financial Statements	
Interim Consolidated Balance Sheet	12
Interim Consolidated Statements of Income	13
Interim Consolidated Statement of Retained Earnings (Deficit)	14
Interim Consolidated Statement of Cash Flows	15
Notes to Consolidated Interim Financial Statements	16-25

Terra Energy Corp.
Consolidated Balance Sheet
(Unaudited – prepared by management)

	June 30, 2004 (unaudited)	December 31, 2003 (audited) (Note 1)
Assets		
Current		
Cash and cash equivalents	\$ -	\$ 512,051
Accounts receivable	2,819,002	1,651,014
Inventory	337,912	303,048
Income taxes receivable	103,965	231,450
Current portion of promissory note	-	559,726
Prepaid expenses	486,912	124,124
	<u>3,747,791</u>	<u>3,381,413</u>
Oil and gas properties	18,161,359	12,224,115
Incorporation costs	3,417	3,417
Due from related party (Note 5)	-	15,000
	<u>\$ 21,912,567</u>	<u>\$ 15,623,945</u>
Liabilities and Shareholders' Equity		
Current		
Bank indebtedness	\$ 490,745	\$ -
Revolving line of credit	-	7,567,154
Accounts payable and accrued liabilities	3,061,657	3,003,452
Due to related party (Note 5)	82,150	-
	<u>3,634,552</u>	<u>10,570,606</u>
Revolving line of credit (Note 6)	7,060,437	-
Asset retirement obligations	1,447,550	742,568
Future income taxes	2,297,389	1,758,923
Preferred shares (Note 7)	1,148,641	1,148,641
	<u>15,588,569</u>	<u>14,220,738</u>
Shareholders' Equity		
Share capital (Note 8)	7,352,879	3,429,753
Contributed Surplus (Note 3(a) and 4)	1,206,000	-
Deficit	(2,234,881)	(2,026,546)
	<u>6,323,998</u>	<u>1,403,207</u>
	<u>\$ 21,912,567</u>	<u>\$ 15,623,945</u>

Commitments and Contingencies (Note 9)

Terra Energy Corp.
Consolidated Statements of Income
(Unaudited – Prepared by Management)

	For the three months ended June 30		For the six months ended June 30	
	2004	2003	2004	2003
Revenue				
Petroleum and natural gas	4,395,322	2,548,560	7,994,272	5,428,628
Royalties and production taxes	(813,368)	(386,374)	(1,498,128)	(1,072,508)
	<u>\$ 3,581,954</u>	<u>\$ 2,162,186</u>	<u>\$ 6,496,144</u>	<u>\$ 4,356,120</u>
Expenses				
Production	1,226,980	942,671	1,963,240	1,621,930
Amortization and depletion	944,000	434,000	1,617,000	946,000
General & administrative	492,143	235,862	1,001,762	523,635
Interest on revolving line of credit	68,954	-	141,725	-
Interest on long term debt	40,776	104,170	40,776	210,808
	<u>2,772,853</u>	<u>1,716,703</u>	<u>4,764,503</u>	<u>3,302,373</u>
Income from operations before other items and income taxes	<u>809,101</u>	<u>445,483</u>	<u>1,731,641</u>	<u>1,053,747</u>
Other income (expense) items				
Stock based compensation (Note 10)	(116,000)	-	(331,000)	-
Accretion	(23,500)	(11,581)	(43,500)	(23,162)
Unrealized foreign exchange gain	-	114,339	-	227,092
	<u>(139,500)</u>	<u>102,758</u>	<u>(374,500)</u>	<u>203,930</u>
Income before income taxes	<u>669,601</u>	<u>548,241</u>	<u>1,357,141</u>	<u>1,257,677</u>
Income taxes				
Current provision (recovery)	4,700	(371,400)	105,500	86,600
Future provision (recovery)	269,600	581,900	504,800	403,900
	<u>274,300</u>	<u>210,500</u>	<u>610,300</u>	<u>490,500</u>
Income for the period (Note 10)	<u>395,301</u>	<u>337,741</u>	<u>746,841</u>	<u>767,177</u>
Earnings per common share – basic and diluted	<u>\$ 0.02</u>	<u>\$ 0.02</u>	<u>\$ 0.03</u>	<u>\$ 0.03</u>
Weighted average number of shares outstanding - basic	<u>25,974,541</u>	<u>22,500,000</u>	<u>25,974,541</u>	<u>22,500,000</u>
Weighted average number of shares outstanding - diluted	<u>26,991,451</u>	<u>22,500,000</u>	<u>26,991,451</u>	<u>22,500,000</u>

Terra Energy Corp.
Interim Consolidated Statements of Deficit
(Unaudited – Prepared by Management)

	For the three months ended June 30		For the six months ended June 30	
	2004	2003	2004	2003
Retained earnings (deficit), beginning of period (Note 10)	\$ (2,445,822)	\$ 951,571	\$ (2,026,546)	\$ 522,135
Income for the period	395,301	337,741	746,841	767,177
Purchase of common shares exceeding carrying value (Note 8 (b))	(184,360)	-	(184,360)	-
Dividends (Note 5)	-	-	(770,816)	-
Retained earnings (deficit), end of period	\$ (2,234,881)	\$ 1,289,312	\$ (2,234,881)	\$ 1,289,312

Terra Energy Corp.
Consolidated Statements of Cashflows
(Unaudited – Prepared by Management)

	For the three month period ended June 30		For the six month period ended June 30	
	2004	2003	2004	2003
Cash flows from operating activities				
Net income for the period	\$ 395,301	\$ 337,741	\$ 746,841	\$ 767,177
Items not affecting cash:				
Amortization and depletion	944,000	434,000	1,617,000	946,000
Future income taxes	269,600	581,900	504,800	403,900
Accretion	23,500	11,581	43,500	23,162
Stock based compensation	116,000	-	331,000	-
Unrealized foreign exchange gain	-	(114,339)	-	(227,092)
	1,748,401	1,250,883	3,243,141	1,913,147
Net change in non-cash working capital balances	(137,094)	(1,045,044)	(596,807)	(470,452)
	1,611,307	205,839	2,646,334	1,442,695
Cash flows from financing activities				
Proceeds from (payment of) revolving line of credit	329,688	(250,000)	(506,717)	(200,000)
Repurchase of share capital	(248,334)	-	(248,334)	-
Repayment of long-term debt	-	(242,788)	-	(516,555)
	81,354	(492,788)	(755,051)	(716,555)
Cash flows from investing activities				
Investment in oil and gas properties	(2,880,693)	(91,996)	(5,353,998)	(1,152,179)
Interest on note receivable	-	-	(72,540)	(26,088)
Due from related party	-	-	15,000	-
Issuance of share capital	15,000	-	15,000	-
Payments received from related companies	-	(190,030)	-	-
Cash assumed on acquisition of Rhodes Resources Corp.	-	-	2,502,459	-
	(2,865,693)	(282,026)	(2,894,079)	(1,178,267)
Decrease in cash and cash equivalents	(1,173,032)	(568,975)	(1,002,796)	(452,127)
Cash and cash equivalents, beginning of period	682,287	160,067	512,051	43,219
Bank indebtedness, end of period	\$(490,745)	\$ (408,908)	\$ (490,745)	\$ (408,908)

June 30, 2004

Terra Energy Corp.
Notes to Consolidated Interim Financial Statements
(Unaudited -Prepared by Management)

1. NATURE OF OPERATIONS

Terra Energy Corp. (the "Corporation") was formed on January 30, 2004 as a result of the amalgamation of Rhodes Resources Corp. ("Rhodes"), Terrapet Energy Corp. ("Terrapet"), and Terra Energy Corp ("Terra") pursuant to the Business Corporations Act of Alberta. The amalgamated Corporation operates under the name Terra Energy Corp. The Corporation's principal business is the exploration, development, and production of oil and natural gas.

The amalgamation has been recorded as a reverse takeover by Terrapet and the comparative financial statements represent a continuation, for accounting purposes, of the financial statements of Terrapet and its subsidiaries ("Terrapet Consolidated").

2. SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial statements of Terra Energy Corp. have been prepared by management in accordance with Canadian generally accepted accounting principles. The interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the financial statements for Terrapet Energy Corp. the year ended December 31, 2003. The interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of Terrapet Energy Corp. and the notes thereto for the year ended December 31, 2003.

3. CHANGES IN ACCOUNTING POLICIES

- (a) Effective January 1, 2003, the Corporation prospectively adopted the new Canadian accounting standard relating to stock-based compensation. Under this standard, the Corporation accounts for stock options granted to non-employees using the fair-value based method. Compensation cost is measured at fair value on the date of grant and recognized over the vesting period by a charge to general and administrative expenses and an equal credit to contributed surplus. For stock options granted to employees compensation expense of \$331,000 has been recorded for the period ending June 30, 2004 with the offsetting charge to contributed surplus.

Under the transitional provisions of the standard, the Corporation is required to record compensation expense in the statement of income and deficit for options issued on or after January 1, 2003. As no options had been granted at June 30, 2003, the prior year amounts have not been restated. However, options were granted on October 31, 2003 and later interim periods will be restated.

- (b) The Canadian Institute of Chartered Accountants has issued a new accounting guideline on Hedging Relationships (AcG 13), which is effective for 2004. This guideline, in addition to supplementing and interpreting existing hedging requirements under Canadian GAAP, establishes certain other conditions required before hedge accounting may be applied. It is management's opinion that all outstanding commodity price derivative contracts satisfy the necessary requirements to be designated a hedging relationship.
-

June 30, 2004

Terra Energy Corp.
Notes to Consolidated Interim Financial Statements
(Unaudited -Prepared by Management)

4. BUSINESS ACQUISITION

On January 30, 2004, Terrapet Energy Corp. ("Terrapet"), Rhodes Resources Corp. ("Rhodes"), and Terra Energy Corp. ("Terra") amalgamated to form Terra Energy Corp.

The shareholders of Rhodes received 5,345,944 common shares of the Corporation based on a five to one share consolidation of their existing shareholdings at January 30, 2004. The common shareholder of Terrapet received 18,547,304 common shares of Corporation in exchange for 22,500,000 common shares of Terrapet. The Series VI preferred shareholders of Terrapet received 3,429,752 common shares of the Corporation in exchange for 3,429,752 Series VI preferred shares of Terrapet.

The amalgamation transaction has been recorded as a reverse takeover by Terrapet and these consolidated financial statements represent a continuation, for accounting purposes, of the financial statements of Terrapet and its subsidiaries Terragrande Energy Corp. and Constar Resources Ltd. The comparative amounts presented are those of Terrapet Consolidated.

Prior to January 30, 2004 Terrapet and Rhodes were related as a result of common ownership and management. The amalgamation transaction has been recorded at the exchange value as there was a substantive change in the ownership interest by non-related parties of Rhodes. The purchase price allocation has also been supported by independent evidence.

The calculation of purchase price and the preliminary allocation to assets and liabilities is shown below. The purchase price allocation is preliminary because certain items such as determination of the final tax bases and fair values of the assets and liabilities as of the acquisition date have not been completed.

Fair values of net assets acquired:

Current assets	\$ 2,502,459
Future income tax asset	725,000
Oil and gas properties	2,497,108
Current liabilities assumed	(317,299)
Asset Retirement Obligations	(37,168)
	<u>5,370,100</u>

Consideration given:

Share capital issued , net of issuance costs	\$ 4,495,100
Stock options and warrants issued value recorded to Contributed Surplus	875,000
	<u>5,370,100</u>

The fair value for 536,400 share options and 1,884,167 warrants was estimated using the Black-Scholes option-pricing model with the following assumptions: Dividend yield (Nil); expected volatility at 30%; risk-free interest rate of 3.5%; with varying lives between 6 months and 3.75 years

June 30, 2004

Terra Energy Corp.
Notes to Consolidated Interim Financial Statements
(Unaudited -Prepared by Management)

5. RELATED PARTY TRANSACTIONS

During the period January 1 through to June 30 of each 2003 and 2004, Terrapet and/or the Corporation entered into the following related party transactions:

(a) Related Parties:

Capital Strategies Canada Corp., controlled by officers of the Corporation
Rhodes Resources Corp., related due to common ownership
Terra Capital Corp., parent company
Forterra Properties Inc., related due to common control
Rhodes Petroleum Corp., related due to common control

(b) Transactions:

	Six Month Period Ended June 30, 2004	Six Month Period Ended June 30, 2003
Interest revenue – Rhodes Resources Inc.	\$ -	\$ 11,454
Expenses		
Management fee – Terra Capital Corp.	\$ 370,977	\$ 463,346

- (i) 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.
- (ii) Management fees have been paid to Terra Capital Corp in respect of management, personnel service, vehicle, office furniture, and equipment leasing for the periods ending June 30, 2003 and 2004.
- (iii) During 2003, the Corporation purchased all the outstanding shares of Rhodes Resources Inc., a corporation under common control with Terrapet. The assets consisted of oil and gas properties with a net book value of \$100,000. A note payable for \$100,000 was issued by Terrapet to Rhodes Petroleum Corp for consideration of this transaction. Rhodes Resources Inc. was immediately wound up into Terrapet.
- (iv) Prior to the amalgamation with Rhodes Resources Corp., and Terra Energy Corp., Terrapet paid a dividend of \$770,816 on January 29, 2004 to Terra Capital Corp. The dividend resulted in the elimination of a promissory note receivable at December 31, 2003.

(c) Due from (to) related parties

	June 30, 2004	December 31, 2003
Terra Capital Corp.	\$ (82,150)	\$ 15,000

June 30, 2004

5. RELATED PARTY TRANSACTIONS (Continued)

Included in accounts payable and accrued liabilities is \$146,868 (December 31, 2003 - \$nil) owing to Terra Capital Corp. consisting of \$106,092 for prior year management fees and \$40,776 for the dividend on the Series I to V preferred shares.

Included in accounts payable and accrued liabilities at December 31, 2003 are \$39,456 owing to Rhodes Resources Corp. This amount is due for the working interest share of expenses related to wells operated by the Corporation prior to amalgamation. Included in accounts receivable at December 31, 2003 is \$228,497 due from Rhodes Resources Corp. to Terrapet in connection with a farm-in arrangement between the two companies prior to amalgamation.

As a result of the amalgamation with Rhodes Resources Corp, no amount is owed or owing at June 30, 2004.

6. REVOLVING LINE OF CREDIT

The Corporation has available a revolving line of credit of up to \$10.0 million, which bears interest at prime plus 0.25%, and is repayable on demand with one year's notice. The facility is secured by a secured by a general security agreement, a floating charge debenture in the amount of \$35 million and an unlimited guarantee by Terra Energy and Constar Resources Ltd. At June 30, 2004, the Corporation was indebted on the revolving line of credit in the amount of \$7,060,437.

During the period ended June 30, 2004 the Corporation renegotiated its credit facility to require repayment with at least one year's notice from the bank. The Revolving line of credit has been reclassified as part of non-current liabilities.

7. PREFERRED SHARES

The Corporation had issued and outstanding Series I to V, 8% cumulative preferred shares which are redeemable and retractable at \$1 per share. The number of shares outstanding at June 30, 2004 was 1,148,641 (December 31, 2003 – 1,148,641). All dividends have been paid to December 31, 2003. As these shares are redeemable at the option of the holder and retractable at the option of the Corporation, a liability in the amount of \$1,148,641 (December 31, 2003 - \$1,148,641) has been reflected in the Corporation's consolidated financial statements. The holder of the preferred shares has waived his right to redeem these shares prior to July 1, 2005. As a result, the liability has been classified as long-term.

During the period ended June 30, 2004, dividends of \$40,776 (June 30, 2003 - \$nil) were accrued on these shares. These amounts have been recorded as part of Interest on long term debt.

June 30, 2004

8. SHARE CAPITAL

a) Authorized:

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

b) Common Shares Issued:

	Number	Amount
Balance, December 31, 2003	22,500,000	\$ 1
Share reduction as a result of amalgamation	(3,952,696)	-
Issued for preferred Series VI share conversion	3,429,752	3,429,752
Issued on acquisition of Rhodes Resources Corp. (note 4)	5,345,944	4,495,100
Issued as consideration for certain oil and gas properties (Note 11 (b))	200,000	250,000
Issued on exercise of options	20,000	15,000
Income tax effect of flow through renouncement related to flow through shares commitment from Rhodes Resources Corp.	-	(773,000)
Shares repurchased	(215,400)	(63,974)
Balance, June 30, 2004	27,327,600	\$ 7,352,879

On October 31, 2003 Terrapet completed a 220,588:1 stock split. All number of shares and per share amounts has been restated to reflect the stock split for 2003.

The Corporation obtained permission from the TSX Venture Exchange for a Normal Course Issuer Bid to repurchase for cancellation up to 250,000 common shares to April 22, 2005. During the period ended June 30, 2004, 215,400 common shares were purchased at a cost of \$248,334 resulting in an excess of \$184,360 charged to retained earnings.

Series VI Preferred Shares Issued:

	Number	Amount
Balance December 31, 2003	3,429,752	\$ 3,429,752
Reduction due to conversion to common shares	(3,429,752)	(3,429,752)
Balance, June 30, 2004	-	\$ -

June 30, 2004

Terra Energy Corp.
Notes to Consolidated Interim Financial Statements
(Unaudited -Prepared by Management)

8. SHARE CAPITAL (continued)

b) Common Shares Issued (continued):

Pursuant to an escrow agreement and the policies of the TSX Venture Exchange, 21,663,264 common shares of the Corporation were deposited in escrow at the amalgamation date. On March 20, 2004 5,652,660 common shares were released ("initial release date"). The remaining common shares shall be released as follows:

- (i) 5,336,868 six month following the initial release date.
- (ii) 5,336,868 twelve months following the initial release date.
- (iii) 5,336,868 eighteen months following the initial release date.

No additional shares have been released subsequent to June 30, 2004.

c) Stock Options:

- (i) The Corporation has an Employee Stock Option Plan whereby officers, directors, employees, and consultants may be granted options to purchase common shares of the Corporation. At June 30, 2004 options have been granted to purchase 2,923,000 common shares (December 31, 2003 – 400,000) ranging at prices between \$0.75 and \$1.00 with expiry dates ranging from December 31, 2006 to February 11, 2009. Details of the options outstanding are as follows:

	Number	Weighted Average Exercise Price
Balance December 31, 2003	400,000	\$ 1.00
Cancelled upon amalgamation with Terra Energy Corp. and Rhodes Resources Corp.	(400,000)	(1.00)
Granted on acquisition of Rhodes Resources Corp. (note 4) under stock option plan	312,000	0.75
Granted under the stock option plan in the current period	2,647,000	1.00
Exercised during the current period	(20,000)	(0.75)
Expired during the current period	(16,000)	(0.75)
Balance, June 30, 2004	2,923,000	\$ 0.97

Options Exercise Price	Outstanding March 31, 2004	Weighted Average Remaining Contract Life	Exercisable March 31, 2004	Weighted Average Remaining Contract Life
\$0.75	276,000	3.33 years	276,000	3.33 years
1.00	2,647,000	4.63 years	403,400	4.63 years
	2,923,000	4.48 years	679,400	4.10 years

June 30, 2004

Terra Energy Corp
Notes to Consolidated Financial Statements
(Unaudited -Prepared by Management)

8. SHARE CAPITAL (Continued)

c) Stock Options (continued):

- (ii) Prior to amalgamation, Terrapet has also issued 400,000 options that were converted to 329,730 options post amalgamation. The options are exercisable at \$1.21 per common share and expire December 31, 2006.
- (iii) The Corporation has also granted 224,400 agent options issued under Rhodes Resources Corp. prior to acquisition. These options are exercisable at \$1.00 per common share of which 217,400 options expire on December 31, 2005 with the remaining 7,000 expiring on January 29, 2006.

d) Stock-based compensation:

Effective January 1, 2003, the Corporation prospectively adopted the new Canadian accounting standard relating to stock-based compensation. Under this standard, the Corporation accounts for stock options granted to non-employees using the fair-value based method. Compensation cost is measured at fair value on the date of grant and recognized over the vesting period by a charge to general and administrative expenses and an equal credit to contributed surplus. For stock options granted to employees compensation expense of \$331,000 has been recorded for the period ending June 30, 2004 with the offsetting charge to contributed surplus.

The fair value of share options 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 3.5%; weighted average life of 5 years.

e) Warrants

The Corporation issued in exchange for warrants previously granted by Rhodes Resources Corp., the following warrants:

- i) 1,200,000 warrants exercisable using 20 warrants to purchase 1 common share at \$1.00 per common share expiring on July 9, 2004. Subsequent to the June 30, 2004, 475,000 warrants were exercised to purchase 23,750 common shares. The remaining 725,000 warrants have expired.
- ii) 1,066,667 warrants exercisable to purchase a common share at \$1.00 per common share with 424,000 expiring December 31, 2004, 332,000 expiring March 7, 2005, and 310,667 expiring October 28, 2005.
- iii) 687,500 warrants exercisable to purchase a common share at \$1.10 per share until December 31, 2004, and \$1.20 per share until December 31, 2005 when these warrants will expire.
- iv) 70,000 warrants exercised at \$1.10 per share until January 29, 2005 and \$1.20 until January 29, 2006.

June 30, 2004

Terra Energy Corp.
Notes to Consolidated Financial Statements
(Unaudited -Prepared by Management)

9. COMMITMENTS AND CONTINGENCIES

- (a) The Corporation is subject to various regulatory and statutory requirements relating to the protection of the environment. These requirements, in addition to contractual agreements and management decisions, result in the accrual of estimated future asset retirement obligations. Any changes in these estimates will affect future earnings.

Costs attributable to these commitments and contingencies are expected to be incurred over an extended period of time and are to be funded mainly from the Corporation's cash provided by operating activities. Although the ultimate impact of these matters on net earnings cannot be determined at this time, it could be material for any one quarter or year.

- (b) The Corporation had outstanding letters of credit to various parties for a total of \$205,900. These letters of credit will expire in the next year. Subsequent to June 30, 2004, \$44,100 in additional letters of credit were issued to various parties with expiry dates in the next year.
- (c) The Corporation is currently involved in litigation with an industry participant who is claiming \$685,850 in respect of breach of contract related to payment on account of Authorizations for Expenditures related to the development of certain lands and pipelines. The Corporation is contesting this claim and issued a counterclaim. It is management's opinion that an adequate provision has been recorded in these consolidated financial statements. Additional amounts, if any, required to resolve these matters, will be recorded in the period of settlement.
- (d) The Corporation is currently involved in litigation with three registered landowners who are claiming \$85,000 in respect of breach of contract and trespass related to activities on or near land owned by the plaintiffs. The Corporation is contesting this claim. No provision has been recorded in these consolidated financial statements. Additional amounts, if any, required to resolve these matters, will be recorded in the period of settlement.
- (e) Constar Resources Ltd. ("Constar"), a subsidiary of the Corporation, was also involved in litigation with a vendor for \$51,239 resulting from unpaid amounts by Constar. The entire liability had been accrued in the accounts at December 31, 2003. The matter has been resolved during the current period without any additional amounts being recorded.
- (f) The Corporation is currently involved in litigation brought by an industry participant relating to a claim of ownership or equitable ownership in a natural gas lease covering a one-quarter Section of land. The Corporation is contesting this claim. No provision has been recorded in these financial statements.
-

June 30, 2004

Terra Energy Corp.
Notes to Consolidated Financial Statements
(Unaudited -Prepared by Management)

9. COMMITMENTS AND CONTINGENCIES – (Continued)

(g) The Corporation has entered into contracts to hedge commodity prices and deliver petroleum and natural gas (physical). The terms of the contracts are summarized as follows:

Contract Type	Sales or Floor Price	Ceiling Price	Remaining Volume	Contract Term
Physical	\$5.80 per GJ	N/A	61,500 GJ	April 1, 2004 to October 31, 2004
Physical	\$33.67 per bbl	N/A	6,000bbl	January 1, 2004 to December 31, 2004
Physical	\$34.30 per bbl	N/A	6,000bbl	January 1, 2004 to December 31, 2004
Physical	\$33.38 per bbl	N/A	6,000bbl	July 1, 2004 to December 31, 2004
Financial	\$6.05 per GJ	N/A	123,000GJ	April 1, 2004 to October 31, 2004
Financial	\$6.15 per GJ	N/A	61,500GJ	April 1, 2004 to October 31, 2004
Financial	\$6.00 per GJ Floor with Protection of \$1.00 per GJ	8.95 per GJ	365,000GJ	November 1, 2004 to October 31, 2005
Financial	\$35.35 per bbl	N/A	36,000bbl	January 1, 2005 to December 31, 2005
Financial	\$36.65 per bbl	N/A	36,000bbl	January 1, 2005 to December 31, 2005

N/A – not applicable

The amount that the Corporation would be required to pay if all the contracts were cancelled at June 30, 2004 would approximate \$1,376,000 (December 31, 2003 - \$219,000).

June 30, 2004

Terra Energy Corp.
Notes to Consolidated Financial Statements
(Unaudited -Prepared by Management)

9. COMMITMENTS AND CONTINGENCIES – (Continued)

- (h) The Corporation has available a financial swap facility of up to US\$3.0 million. The Corporation may enter commodity swap contracts with terms of less than one year and may not exceed 2/3 of the Corporation's average daily production, net of royalties, for the fiscal quarter prior to the date the contract is entered into. The facility is secured by a general security agreement; a floating charge debenture in the amount of \$35 million and an unlimited liability guarantee by the Corporation and its subsidiaries. At June 30, 2004 there were no outstanding swap contracts.
 - (i) The Corporation is required to incur exploration and development activities of approximately \$2,300,000 as a result of flow through shares issued through Rhodes Resources Corp. As at June 30, 2004, the Corporation has spent approximately \$1,583,000.
-

10. NON-CASH TRANSACTIONS AND FIRST QUARTER AMENDMENT

- (a) During the second quarter, the Company revisited its first quarter calculations related to stock based compensation expense and determined that an adjustment of \$196,200 was required for the first quarter. This resulted in an increase in the first quarter compensation expense from \$18,800 to \$215,000 and a decrease in the first quarter income from \$547,740 to \$351,540.
 - (b) In lieu of settlement, dividends of \$665,816 were declared on January 29, 2004 for balances due to related parties.
 - (c) During the current year, certain properties were purchased from an unrelated party for \$1.0 million. As part of the consideration, 200,000 common shares valued at an estimated fair market value \$250,000 were issued to the vendor.
-

11. SUBSEQUENT EVENT

The Corporation has also entered into a share issuance agreement consisting of a minimum of 2,000,000 and a maximum of 3,000,000 Flow-through Shares at a price of \$1.30 per Flow-through Share. The Flow-through Share Agreement allows the Corporation to grant an option to purchase up to an additional 450,000 Flow-through Shares at a price of \$1.30 per Flow-through Share for over allotment.

CORPORATE INFORMATION

Head Office

Suite 700, 505 – Third Street S.W.
Calgary, Alberta T2P 3E6
Telephone (403) 699-7777
Facsimile (403) 264-7189

Solicitor

Borden Ladner Gervais LLP, Calgary, Alberta

Auditor

BDO Dunwoody LLP, Calgary, Alberta

Evaluation Engineers

McDaniel & Associates Consultants Ltd., Calgary, Alberta
Status Engineering Associates Ltd., Calgary, Alberta

Banker

CIBC, Calgary, Alberta

Transfer Agent

Shareholders are encouraged to contact our Registrar and Transfer Agent for information regarding their securities holdings:

Computershare Trust Company
Suite 600
530 8th Avenue SW
Calgary, Alberta T2P 3S8
Tel: 1-800-564-6253
Fax 1-888-453-0330
email: caregistryinfo@computershare.com

Stock Exchange

TSX-Venture

Stock Symbol

TTR

Investor Contact

Bud K. Love
Vice President, Finance & Chief Financial Officer
Tel: (403) 699 7777
Fax: (403) 264 7189

Corporate Communications

Constance J. Fitzpatrick
Tel: (403) 699 7769
Fax: (403) 264 7189



Suite 700, 505 Third Street SW, Calgary, Alberta, Canada T2P 3E6
Tel: 403 699 7777 Fax: 403 264 7189