

TERRA VENTURES INC.

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2006 and 2005

NOTICE OF NO AUDITOR REVIEW

The accompanying unaudited interim financial statements *for the period ended August 31, 2006* have been prepared by management

The Company's independent auditors have not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

TERRA VENTURES INC.
CONSOLIDATED BALANCE SHEETS
August 31, 2006 and February 28, 2006
 Unaudited prepared by management

	<u>August 31</u>	<u>February 28</u>
<u>ASSETS</u>	<u>2006</u>	<u>2006</u>
Current		
Cash	\$ 9,337	\$ 23,363
GST receivable	<u>12,105</u>	<u>10,122</u>
	<u>\$ 21,442</u>	<u>\$ 33,485</u>

LIABILITIES

Current		
Accounts payable and accrued liabilities – Note 5	\$ 63,633	\$ 23,860
Loans payable – Note 7	<u>257</u>	<u>257</u>
	<u>63,890</u>	<u>24,117</u>

SHAREHOLDERS' EQUITY (DEFICIENCY)

Share capital – Notes 4 and 8	2,565,502	2,510,688
Deficit	<u>(2,607,950)</u>	<u>(2,501,320)</u>
	<u>(42,448)</u>	<u>9,368</u>
	<u>\$ 21,442</u>	<u>\$ 33,485</u>

Nature and Continuance of Operations – Note 1
 Subsequent Event – Note 8

APPROVED BY THE DIRECTORS:

“Gunther Roehlig” Director
 Gunther Roehlig

“Mike Magrum” Director
 Mike Magrum

TERRA VENTURES INC.
CONSOLIDATED STATEMENTS OF LOSS
for the three and six months ended August 31, 2006 and 2005
Unaudited prepared by Management

	3 months ended August 31, 2006	3 months ended August 31, 2005	6 months ended August 31, 2006	6 months ended August 31, 2005
Expenses				
Bank charges and interest	43	186	101	1725
Consulting	-	7,500	7,750	15,000
Legal and accounting fees	16,800	17,000	16,800	17,000
Management fees	7,500	7,500	15,000	15,000
Office expenses and miscellaneous	-	-	-	1,000
Printing	-	1,572	-	1,572
Rent	1,500	1,000	3,000	1,000
Shareholder's communication	796	347	796	347
Transfer agent and filing fees	4,911	6,729	7,028	8,686
Travel and entertainment	173	57	1,341	57
Total expenses	31,723	49,390	51,816	61,386
Write-off on disposal of Subsidiary	-	1,573,107	-	1,573,107
Net loss for the year to date	\$(31,723)	\$(1,580,607)	\$(51,816)	\$(1,634,493)
Basic and diluted loss per share	\$ (0.003)	\$ (0.39)	\$ (0.005)	\$ (0.41)

TERRA VENTURES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the three and six months ended August 31, 2006 and 2005
Unaudited prepared by Management

	3 months ended August 31, 2006	3 months ended August 31, 2005	6 months ended August 31, 2006	6 months ended August 31, 2005
Operating Activities				
Net loss for the year to date	\$ (31,723)	\$(1,614,997)	\$(51,816)	\$(1,631,987)
Add (deduct) items not involving cash:				
Write-off of subsidiary	-	1,573,107	-	1,573,107
	(31,723)	(41,890)	(51,816)	(58,880)
Changes in non-cash working capital items:				
GST receivable	(1,647)	(1,669)	(1,982)	(1,806)
Prepaid expenses and deposit				
Accounts payable and accrued liabilities	16,201	(8,898)	17,272	(6,790)
Cash used in operating activities	(17,169)	(52,457)	(36,526)	(67,476)
Investing Activities				
Advances to subsidiary	(-)	(138,335)	(-)	(138,335)
Cash from (used in) investing activities	(-)	(138,335)	(-)	(138,335)
Financing Activities				
Loans payable	-	14,878	-	14,878
Related parties advances	7,500	24,853	22,500	40,153
Proceeds from issuance of common shares	-	200,000	-	200,000
Cash provided by financing activities	7,500	239,731	22,500	255,031
Change in cash during the year to date	(9,669)	48,939	(14,026)	49,220
Cash, beginning of the period	19,006	2,150	23,363	1,868
Cash (bank indebtedness), end of the year to date	9,337	51,088	9,337	51,088

SEE ACCOMPANYING NOTES

TERRA VENTURES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2006 and 2005
Unaudited prepared by management

Note 1 Nature and Continuance of Operations

The Company is in the development stage and is listed on the NEX Exchange, a division of the TSX Venture Exchange. On April 25, 2006, the Company entered into an agreement to acquire a mineral property in Saskatchewan to acquire a 100% interest in the Carswell Lake Uranium Property comprising 44 mineral dispositions and two exploration permits located in Saskatchewan in consideration for \$2,000,000 in common shares of the Company, \$1,000,000 cash, a royalty of 2% of net smelter returns and a 2% gross overriding royalty. The common shares to be issued to the Vendor are to be issued at the equal price in which the Company conducts a concurrent equity financing provided that the Vendor will not receive less than 2,000,000 common shares of the Company. This agreement is subject to TSX Venture Exchange (TSX) approval. If approval is not received by November 30, 2006, the Vendor has the right to terminate the agreement at any time until TSX approval is received.

These financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At February 28, 2006, the Company has accumulated losses of \$2,501,320 since its inception and expects to incur further losses in the development of its business, all of which casts substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due.

The Company is incorporated under the British Columbia Business Corporations Act.

Note 2 Summary of Significant Accounting Policies

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in Canada and are stated in Canadian dollars. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of consolidated financial statements for a period necessarily involves the use of estimates, which have been made using careful judgement. Actual results may differ from these estimates.

The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

a) Principles of Consolidation

These consolidated financial statements at August 31, 2006, include the accounts of Terra Ventures Inc. and its wholly-owned subsidiary, Transmeridian Communications Inc. (TCI), a British Columbia company. On June 2, 2005, TCI was sold.

Note 2 a) Significant Accounting Policies – (cont'd)

The financial statements, for the three and six months ended August 31, 2006, include the accounts of TCI for the period March 1, 2005 to May 31, 2005. All significant inter-company transactions and balances have been eliminated.

b) Basic and Diluted Income (Loss) per Share

Basic income (loss) per share is computed by dividing the income (loss) for the year by the weighted average number of common shares outstanding during the year. Diluted income (loss) per share reflects the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method and the effect of convertible securities by the “if converted” method. Fully diluted amounts are not presented when the effect of the computations are anti-dilutive. Accordingly, there is no difference in the amounts presented for basic and diluted income (loss) per share.

c) Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes only if it is more likely than not that they can be realized.

d) Financial Instruments

The carrying value of the cash, accounts payable and accrued liabilities and loans payable approximate their fair value due to the short-term maturity of such instruments. Unless otherwise noted, it is management’s opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

e) Leases

Leases are classified as capital or operating leases. A lease that transfers substantially all of the benefits and risks incidental to the ownership of property is classified as a capital lease. At the inception of a capital lease, an asset and an obligation are recorded at an amount equal to the lessor of the present value of the minimum lease payments and the property’s fair value at the beginning of the lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

f) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the balance sheet date and non-monetary items are translated at exchange rates prevailing when the assets were acquired or liabilities incurred. Income and expense items are translated at the exchange rates prevailing on the date of the transaction. Resulting exchange gains or losses are included in income.

Note 3 Loans Payable

	<u>2006</u>	<u>2005</u>
a) Loans payable, unsecured, bearing interest at the bank prime rate plus 2% per annum, due on demand.	\$ -	\$ 139,997
b) Loans payable, unsecured, non-interest bearing, due on demand.	257	109,414
c) Loan payable, unsecured, bearing interest at 19% per annum, due on demand.	<u>-</u>	<u>21,866</u>
	<u>\$ 257</u>	<u>\$ 271,277</u>

Note 4 Share Capital

a) Authorized:

100,000,000 common shares without par value.

b) Issued:

	<u>Number</u>	<u>Amount</u>
Balance, February 29, 2004	18,116,562	\$ 1,605,688
Consolidation on 18:1 basis on June 11, 2004	<u>(17,110,086)</u>	<u>-</u>
Post consolidation balance	1,006,476	1,605,688
For cash:		
Pursuant to private placements – at \$0.10	1,000,000	100,000
Less: share issue costs	<u>-</u>	<u>(5,000)</u>
Balance, February 28, 2005	2,006,476	1,700,688
For cash:		
Pursuant to private placements – at \$0.10	2,000,000	200,000
Pursuant to finders' fees – at \$0.10	520,000	52,000
Pursuant to private placements – at \$0.10	6,100,000	610,000
Share issuance costs	<u>-</u>	<u>(52,000)</u>
Balance, February 28, 2006	<u>10,626,476</u>	<u>\$ 2,510,688</u>
Balance, August 31, 2006	<u>10,626,476</u>	<u>\$ 2,510,688</u>

c) Escrow Shares

At August 31, 2006, 370,009 (2005: 370,009) common shares are held in escrow by the Company's transfer agent. The Company has applied to have the escrow shares cancelled.

d) At August 31, 2006, 6,100,000 (2005: Nil) share purchase warrants were outstanding. Each warrant entitles the holder to purchase one common share of the Company at \$0.125 until January 16, 2007.

Note 5 Related Party Transactions

The Company incurred the following charges with directors, officers and former directors of the Company:

	<u>2006</u>	<u>2005</u>
Accounting fees	3,000	-
Consulting fees	7,500	15,000
Management fees	<u>15,000</u>	<u>15,000</u>
	<u>\$ 22,500</u>	<u>\$ 30,000</u>

These charges were measured by the exchange amount which is the amount agreed upon by the transacting parties.

At August 31, 2006 accounts payable included \$27,490 (2005: \$171,853) due to current or former directors and officers of the Company for consulting and management fees payable.

At August 31, 2006 loans payable included \$nil (2005: \$53,960) owing to directors of the Company. The loans payable were unsecured, non-interest bearing and due on demand.

Note 6 Corporate Income Tax Loss Carryforwards

At August 31, 2006, the Company has accumulated non-capital losses from continuing operations totalling \$786,370 that may be applied against future years taxable income. The non-capital losses expire as follows:

2008	\$ 115,742
2009	102,649
2010	169,216
2011	176,881
2015	<u>221,882</u>
	<u>\$ 786,370</u>

Significant components of the Company's future tax assets and liabilities, after applying enacted corporate income tax rates, are as follows:

	<u>2006</u>	<u>2005</u>
Future income tax assets		
Net tax losses carried forward	\$ 280,105	\$ 254,979
Valuation allowance for future income tax assets	<u>(280,105)</u>	<u>(254,979)</u>
Net future income tax assets	<u>\$ -</u>	<u>\$ -</u>

Note 6 Corporate Income Tax Loss Carryforwards (cont.)

A full valuation allowance has been applied because management considers it more likely than not that the losses will not be utilized during the loss carry forward period.

Note 7 Comparative Figures

Certain comparative figures as at August 31, 2005, have been reclassified to conform to the financial statement presentation used as at August 31, 2006.

Note 8 Subsequent Events

Trading in the shares of the Company was halted on April 26, 2006 pending a potential reverse takeover. On September 20 trading in the stock was resumed as announced on that date.

On September 26 Terra Ventures announced a special meeting of shareholders (EGM) to be held on November 21, 2006 seeking shareholder approval to acquire a 100% interest in 44 mineral dispositions and two exploration permits situated in Saskatchewan known as “the Carswell Lake” uranium property. The property is 832,211.65 acres in size and is situated in the highly prospective uranium exploration district of the Athabaska basin. Under the terms of the agreement, the company will pay the vendors \$2 million in the form of shares and \$1 million cash. In addition, a 2% net smelter return royalty and a 2% gross overriding royalty were granted.

Shareholders will also be asked to approve the concurrent financing of a brokered private placement of a minimum of \$1,600,000 and a maximum of \$2,400,000 worth of flow-through shares, and a minimum of \$1,600,000 and a maximum of \$2,400,000 worth of non-flow-through units. Both the shares and the units will be priced at 80 cents. Each non-flow-through unit will consist of one common share and one-half of one non-transferable share purchase warrant, each full warrant entitling the holder thereof to purchase one additional common share of the company for a two-year period at \$1.20. There are no warrants with the flow-through shares.

This agreement is subject to TSX Venture Exchange (TSX) approval. If approval is not received by November 30, 2006, the Vendor has the right to terminate the agreement at any time until TSX approval is received.