

Terrace Energy updates shareholders

Terrace Energy {TSX.V: TZR} provided their shareholders with an operations update.

CEO Dave Gibbs acknowledged a “difficult and challenging” year past, and noted that the company had achieved most of their objectives, despite a “precipitous drop in oil prices”.

PRESS RELEASE

TERRACE PROVIDES OPERATIONS UPDATE

Vancouver, BC, June 3, 2015 – **Terrace Energy Corp. {TSXV: TZR}** is pleased to provide the following operations update.

Dave Gibbs, the Company’s President and Chief Executive Officer commented: *“The last year was both transformative and challenging. We were able to achieve many of our exploration and development objectives. Most notably, we commenced an accelerated development program at the STS Olmos Project which has demonstrated the potential for providing consistent, repeatable results over a large inventory of identified drilling locations. The precipitous drop in world oil prices late in the year, however, adversely impacted the energy industry as a whole and made preserving assets and liquidity our first objective. In immediate response to trending oil prices, we initiated a number of preemptive steps to defer or reduce certain capital commitments until such time as market conditions improve, and we successfully renegotiated the terms of our STS Olmos credit facility.”*

Dave Gibbs further commented: *“We are pleased with the overall*

results of our exploration and development programs over the last year notwithstanding the impact of lower oil prices. Moving forward, we will continue to exercise financial discipline and seek opportunities to enhance shareholder value by considering all development options, including, but not limited to, the joint venture development of assets, the sale of certain assets, or the combination of the Company with a strategic partner."

Highlights from Fiscal 2015 Results of Operations (US \$)

The Company posted a 31% increase in production volumes (122,943 BOE in fiscal 2015 compared to 93,604 BOE in 2014) and an 18% increase in gross revenues (\$6,725,471 in fiscal 2015 compared to \$5,718,813 in 2014) for the fiscal year ended January 31, 2015 compared to 2014. The impact of increased production volumes was partially offset by falling oil prices in the fourth quarter. The Company incurred a loss of \$24,514,426 for the year ended January 31, 2015 compared to a loss of \$6,575,492 for the year ended January 31, 2014. Included in the loss are asset impairment charges in the aggregate amount of \$19,491,076, which includes the write down of costs associated with an evaluation well at the Company's Big Wells Project, the write down of two minimally producing wells at the Company's Maverick County Project, and the write down of the Company's Cutlass Project. In addition, the loss includes non-cash deductions of \$4,093,053 for depreciation and depletion, \$136,727 for share based payments, \$599,305 for the accretion of convertible notes and \$889,961 for payment in kind interest accrued on the credit facility. It also includes an unrealized foreign exchange gain of \$4,965,318.

Liquidity and Capital Resources

As at January 31, 2015, the Company had consolidated working capital of \$25,442,367, which was substantially comprised of cash of \$26,494,024 and accounts receivable of \$1,482,629 less current liabilities of \$4,566,006.

Cash and accounts receivable in the amounts of \$14,392,294 and \$944,912, respectively,

represent funds which may only be used to pay expenses and liabilities associated with the development of the Company's STS Olmos Project pursuant to the terms of the credit facility.

Current liabilities associated with the STS Olmos Project were \$3,862,166. As a consequence, the Company had available working capital of \$13,967,327, substantially comprised of cash of \$12,101,730, accounts receivable of \$537,717 and the Cutlass Project assets held for sale of \$1,762,845 offset by accounts payable of \$703,840, to fund its other operations.

Due to the precipitous fall in oil prices, the Company's subsidiary, Terrace STS, LLC, could not comply with the asset coverage and leverage ratio covenants set out in its credit facility agreement. The Company did not, however, default on any payment due the lender. The lender provided a waiver of non-compliance and agreed to adjust the asset coverage and leverage ratio requirements for the next three quarters.

As consideration for the waiver and the amended terms, the Company agreed to increase the interest rate margin from LIBOR + 7% to LIBOR + 8% beginning June 1, 2016 and to pledge the assets of Terrace STS, LLC as collateral. In addition, the Company agreed it could not draw down additional funds under the credit facility without the prior consent of the lender.

Dave Gibbs further commented: *"We are very pleased with the renegotiated agreement with our lender and remain reasonably satisfied that existing and projected cash flow from the STS Olmos Project will fund our project development plans over the balance of this fiscal year."*

Project Update

STS Olmos Project, McMullen and LaSalle Counties, Texas

As previously reported, the Company and its partner launched an aggressive development program in the third quarter of 2014. To date, 12 new development wells have been drilled on 3 four three-well pads. Two of these pads, the STS #6-1 and the STE #5 3-well pads, were completed earlier this year with 30 day initial production rates* of 2,376 BOEPD and 2,478 BOEPD respectively.

Completion operations are under way on the STS #6 3-well pad located in McMullen County. These three wells will be completed in approximately 66 total stages using similar “zipper frac” techniques as the two previously completed pads. The Company expects to realize capital cost savings of approximately 30% over the cost of previous completions due to frac design refinements and current market conditions.

Following completion operations on the STS #6 3-well pad, the partners will assess frac design results and market conditions prior to commencing completion operations on the STS #605 3-well pad.

Terrace holds a 27% interest in each of these pads. The STS Project has shown strong and repeatable production results over the 16 wells completed to date. Such consistent results have transformed the Company from being primarily an explorer to a project developer and established the STS Olmos Project as the Company’s flagship project.

Maverick County Project, Maverick and Zavalla Counties, Texas

During the fiscal year ended January 31, 2015, the Company, through its ownership interest in the BlackBrush Terrace LP (the “Partnership”), participated in the drilling of four evaluation wells on the Maverick and Zavalla County acreage. These four wells provided the Partnership with valuable geological data that has helped shape future exploration plans. Most notably, these wells confirm the presence of the Eagle Ford Shale in three separate areas of the project

covering at least 50,000 of the project's 147,000 gross acres. Based on the geologic data obtained, the Partnership recently drilled the Chittim Heirs #10H Eagle Ford development well with approximately 4,500' of horizontal lateral in the Lower Eagle Ford Shale. Completion operations are planned to commence in early July using the same frac spread currently working on the STS #6 3-well pad. The #10H well will be completed with 20 stages of hydraulic fracture stimulation. This well is an offset to the two existing Eagle Ford wells, the Chittim Heirs #F-1H and Chittim Heirs #2H in Zavalla County.

Immediately following the completion of the Chittim Heirs #10H well, the Partnership plans to move the completion crews over to test the previously drilled Chittim Heirs #4H Buda Limestone horizontal well with an initial evaluation test employing a 3-stage fracture stimulation process. The Company expects completion operations to be accomplished on both wells before the end of July, 2015.

In order to preserve capital, the Company sought and came to an agreement with its partner wherein the Company would not contribute its share of costs to drill and complete these additional wells. As a result, the Company's ownership interest in the Partnership will likely be reduced from 50% to approximately 45% by the end of the calendar year. The reduction in the Company's ownership interest in the Partnership does not impact the operational management of the Partnership.

Big Wells Buda Development Project, Dimmit County, Texas

During 2014, the initial exploration well, the Price #1H well, was drilled into the Buda limestone formation. The well was critical to establishing the presence of commercially producible hydrocarbons and validating the geological concept for the project. However, the well encountered formation water

in a trough encountered at the end of the drilling operation. Consequently, the well was not a commercial success, but it did provide valuable data for planning the future exploration of the project.

The Company successfully renegotiated its farmout agreement to defer its next drilling obligation until August, 2015. Discussions are actively underway with potential partners to contribute the capital required for the next obligation well in return for a 50% working interest in the project. The Company currently holds a 100% working interest in the farmout agreement covering 10,130 net mineral acres. Land and title work have been completed in preparation for the next drilling location, the Paschall #1H.

Dave Gibbs, finally commented: *"Volatile energy markets also give rise to opportunity. We were able to overcome recent challenges, preserve assets and maintain sufficient liquidity to consider strategic corporate and operating options in the normal course of business. We believe the Company's assets will grow in value, as oil prices continue to recover, because of their location, geology and prospective production profile."*

About Terrace Energy

Terrace Energy is an oil & gas development stage company that is focused on unconventional oil extraction in onshore areas of the United States.

ON BEHALF OF THE BOARD OF DIRECTORS

"Dave Gibbs"

Dave Gibbs, CEO

* The results observed are not necessarily indicative of long-term production performance or the ultimate recovery from these wells.

Cautionary Note Regarding Use of Barrels of Oil Equivalent (BOEs)

BOEs (including BOEPD) 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 at the burner tip and does not represent a value equivalency at the wellhead. As the value ratio between natural gas and crude oil based on the current prices of natural gas and crude oil is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

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Forward-Looking Information

This press release includes forward-looking information and forward-looking statements (together, "forward-

looking information") within the meaning of applicable Canadian and United States securities laws. Forward-looking information includes, but is not limited to: statements that management is reasonably satisfied that existing and

projected cash flow from the STS Olmos Project will fund project development plans over the balance of this fiscal year; expectations regarding realizing capital cost savings at the STS Olmos Project of approximately 30% due to frac design refinements and current market conditions; statements relating to the Company's plans to continue to grow its assets in value; and other statements regarding plans for the development of the Company's projects and the timing thereof. Users of forward-looking information are cautioned that actual results may vary materially from the forward-looking information disclosed in this press release. The material risk factors that could cause actual results

to differ materially from the forward-looking information contained in this press release include the risk that there can be no assurance that cash flow from the STS Olmos Project will be sufficient to fund project development plans over the balance of this fiscal year, as actual cash flows may not be consistent with management's expectations or projections and additional funds may not be available under the credit facility due to the lender's right to withhold consent in its sole discretion; inability of the Company's subsidiary (Terrace STS, LLC) to comply with the revised financial covenants in the credit facility agreement; the risk that frac design refinements will not operate as intended;

changing market conditions; changes to the Company's ability to access infrastructure in the vicinity of its projects at a reasonable price; changing costs for and availability of required goods and services; regulatory changes; risks relating to disagreements or disputes with joint venture partners, including any failure of a joint venture partner to fund its obligations; volatility in market prices for oil and

natural gas, including the risk that prices will not recover or stabilize at current or higher prices; and all of the other risks and uncertainties normally associated with the exploration for and development and production of oil and gas, including geologic uncertainties, unforeseen drilling hazards, geological, technical, drilling and processing problems, accidents and adverse weather conditions.

The forward-looking information contained in this press release represents management's best judgment of future events based on information currently available. The material assumptions used to develop the forward-looking information include: assumptions relating to projected cash flows and capital cost savings; that the Company will be able to

access infrastructure in the vicinity of its projects on reasonable terms; that the Company will be able to access the goods and services necessary in order to conduct further exploration, development and production at its projects on reasonable terms; that regulatory requirements will not change in any material respect; and that other aspects of the Company's operations will not be affected by unforeseen events. Statements regarding future drilling locations are based on geologic interpretations which are subject to revision as further data is developed. The Company does not assume the obligation to update any forward-looking information, except as required by applicable law.