## CANTERRA MINERALS CORPORATION

*(formerly Diamondex Resources Ltd.)*

**MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - FORM 51-102F**

For the three- and twelve-month periods ended December 31, 2010

This Management's Discussion and Analysis ("MD&A") reviews the activities of Canterra Minerals Corporation ("Canterra", or the "Company") and compares the financial results for the three- and twelve-month periods ended December 31, 2010 (the "fourth quarter 2010" and "fiscal 2010", respectively) with the comparable periods in 2009 (the "fourth quarter 2009" and "fiscal 2009"). This MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes for the recently completed financial year and the MD&As for all relevant periods, copies of which are filed under the Company's profile on the SEDAR website, www.sedar.com.

The information in this MD&A is provided as of the date of this MD&A, February 24, 2011 (the "Report Date").

### DESCRIPTION AND OVERVIEW OF BUSINESS

The Company is a resource exploration company focused on the exploration of precious metal properties in Canada, principally in Ontario. The Company was incorporated as 580312 B.C. Ltd. in British Columbia on February 18, 1999 and adopted the name "Diamondex Resources Ltd." on March 23, 1999. The Company adopted its present name on December 9, 2009, in connection with the business combination of Diamondex and Triex Minerals Corporation (Triex) on December 11, 2009.

Mr. David Clarke, the former Vice President – Exploration of Canterra, rejoined the Company in mid-October 2010 as President, CEO and a director, replacing Mr. Randy Turner as President & CEO. Mr. Turner was appointed Canterra's Executive Chairman and will continue to have an active role in the Company's affairs.

Historically, the Company explored for diamonds on properties located in Nunavut and the Northwest Territories, and more recently, in northern Ontario and Alberta. However, declining investor interest in the junior diamond exploration sector became apparent in the latter half of 2007, prompting the Company to broaden its exploration activities in late 2007 and early 2008. At that time the Company assembled a large number of mining claims protecting over 400,000 acres in the James Bay Lowlands of northern Ontario, a region that is believed to be highly prospective for base metals, including nickel deposits (the "Nickel Bay property"). In December 2009, as the result of the business combination with Triex, the Company acquired a number of uranium exploration properties located primarily in Saskatchewan and Nunavut.

As investor interest in the junior diamond and uranium sectors has remained subdued through 2010, the Company has continued to focus its exploration efforts on precious metals properties. During the second half of fiscal 2010, the Company acquired three properties in the Superior Structural Province in northwestern Ontario. This area hosts a number of world-class gold and base metal deposits and has had a long history of mining, confirming the area's mineral endowment and potential to host additional deposits. In addition, the population centres in northwestern Ontario have a pool of experienced workers, there are well-maintained networks of roads, powerlines and other infrastructure and supplies and services are readily available.

The Company's diamond and uranium exploration properties, other than for the Buffalo Hills joint venture ("BHJV") diamond exploration project in central Alberta, are on "care and maintenance" until there is evidence of renewed investor interest in funding exploration of diamond and uranium prospects. A number of properties in Nunavut and the Northwest Territories have been inactive for several years and as the Company does not plan to do work on those properties in 2011, the carrying values of the properties have been written off, in accordance with GAAP. The mineral property acquisition costs and deferred exploration costs written-off total approximately $7,901,000 and $33,067,000, respectively.

Since its formation in 1999, the Company has accumulated losses of approximately $72,000,000. As noted in Note 1 to the consolidated financial statements for the period ended December 31, 2010, there is substantial doubt about the Company's ability to continue as a going concern. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future and repay its liabilities arising from normal business operations as they become due. As part of the cost containment program implemented in early 2008 discretionary expenditures on the Company's exploration properties have been substantially reduced and management is evaluating alternative sources of funds to improve the Company's working capital position. There is no assurance that these efforts to obtain additional funding will be successful.

### PRIMARY ASSETS OF THE COMPANY

The Company's core assets are the exploration rights to its mineral properties. These rights are held by means of claims located by staking and prospecting permits or leases issued by government departments for prospecting and exploration purposes. In several instances, the mineral rights are held under Purchase Option Agreements. Such agreements typically require the Company to make cash payments, share issuances and incur exploration expenditures on multi-year schedules as set forth in each agreement.

In the aggregate, the Company's property holdings at the Report Date encompass approximately 478,000 hectares. The geographic distribution of the Company's property holdings are set forth in the following table:

| Jurisdiction | Hectares |
|---|---|
| Alberta | 318,144 |
| Nunavut & Northwest Territories | 12,947 |
| Ontario | 59,744 |
| Saskatchewan | 84,272 |
| Other | 2,980 |
| | 478,087 |

For a number of years, the Company's exploration efforts were directed at assessing large areas of Nunavut and the Northwest Territories for diamonds. In 2007, the geographic focus of those efforts began to be redirected, when the Company acquired interests in diamond exploration properties in central Alberta and the James Bay Lowlands of northern Ontario. The Company put its presence in the James Bay Lowlands to good use in late 2007 and early 2008, when several base metal discoveries were made in the area. With field camps and helicopter support already in place as a result of its diamond exploration activities, the Company was quickly able to assemble a large land package during the early part of the winter of 2007/08, while competitors were still attempting to mobilize personnel and equipment to the area. During that period, the Company acquired through staking mineral rights to more than 414,000 acres in the emerging "Ring of Fire" region in the James Bay Lowlands area. More recently, the Ring of Fire land holdings have been reduced to approximately 44,000 hectares covering anomalies identified during geophysical surveys the Company conducted over the initial claim holdings in the Ring of Fire area. The acquisition in late 2010 of Purchase Option Agreements for the three gold properties in northwestern Ontario added approximately 15,000 hectares to the Company's land holdings in Ontario.

The Company's acquisition of Triex in December 2009 resulted in the Company acquiring additional mineral properties in Nunavut and Saskatchewan. This acquisition also broadened the Company's commodity portfolio, as Triex was exploring for uranium.

### Property Acquisition and Deferred Exploration Expenditures

The Company's accounting policies are to defer (i.e., capitalize) the expenditures incurred in exploring its mineral properties. Gross exploration expenditures in fiscal 2010 amounted to $1,624,566 and were incurred largely on the BHJV project (55% of total expenditures) and for decommissioning and clean-up of the exploration camps for the Brodeur and King properties.

Most of the Company's diamond and uranium properties have been on "care and maintenance" throughout the current year, due to the Company's limited cash resources. In addition, because of blockades organized by First Nations groups in the "Ring of Fire" area in northern Ontario (actions that were directed at the lack of consultation by the Ontario provincial government concerning activities occurring on the First Nation's traditional lands but which severely hampered the activities of a number of other companies attempting to carry out exploration programs in the first half of 2010), the Company focused its exploration efforts in 2010 on further evaluation of the Buffalo Hills diamondiferous property in central Alberta.

At year-end 2010, the carrying value of a number of the Company's properties were written-off. The total amount written-off was approximately $41,000,000. The properties written-off included Lena West, Brodeur, Kelsey, Weiland and Lac de Bois.

In 2011, the Company intends to focus its exploration expenditures on the three newly-acquired gold properties in Ontario; the Drake & Essex, Hornet and Boxer properties.

#### *Drake & Essex Properties, Pickle Lake, Ontario*

- Purchase Option Agreement entered into for two contiguous claim packages which encompass a total of 9,440 hectares in the northern portion of the Pickle Lake greenstone belt
- By making aggregate cash payments of $195,000 and issuing a total of 400,000 shares over a three year period, the Company can acquire a 100% interest in the two claim packages, subject to a 2% net smelter return royalty ("NSR"), half of which may be purchased for a cash consideration of $1,000,000
- Essex claims comprised of 20 contiguous claims centered approximately nine kilometres southeast of the Town of

Pickle Lake. The Drake claims, which comprise a northeast trending contiguous package of 23 claims, centered approximately 20 kilometres northeast of the Town
- Both claim groups are located within a succession of Archean supracrustal rocks which host historic high grade mines which have produced over 2.3 million ounces of gold
- Proposed work programs for 2011 could include detailed airborne geophysical surveys (magnetic and electromagnetic), geochemical surveys (soil, till, and rock sampling) as well as diamond drill testing

The Drake and Essex properties are located within the northern portion of the Pickle Lake Greenstone Belt ("PLGB") which is located approximately 350 kilometres north northwest of the city of Thunder Bay, Ontario. These properties boast excellent access to infrastructure with highway 808 running parallel to or through their length. The PLGB forms a 75 by 25 kilometer swath of NE trending supracrustal rocks and internal granitoids within the Uchi Subprovince of the Superior Structural Province. Mines within the Uchi Subprovince have produced over 25 million ounces of gold to date, primarily from the Red Lake camp along with significant contributions from the Rice Lake and Pickle Crow camps. The mineral rights to most of the northern PLGB are held by patented and unpatented mineral claims or by mining leases which occur on strike and adjacent to the past producing Pickle Crow, Central Patricia and Dona Lake Mines. Since gold was first discovered at the No. 1 Vein of the Pickle Crow Mine in 1928, the area has undergone several waves of exploration activity which has led to the discovery of three gold mines and one nickel/copper/platinum group elements deposit. Currently, the largest exploration program in the PLGB is focused on exploring the down-dip and on strike extensions of past producing shoots within the Pickle Crow Gold Property, which is owned by PC Gold Inc. The Pickle Crow Mine produced 1.45 million ounces of gold between the years 1935 and 1966 at an average grade of 16.14 grams per tonne ("g/t").

Both the Essex and Drake claim groups are underlain by an underexplored package of rocks that the Company deems prospective for hosting gold mineralization. In 2011, the Company proposes to undertake a high resolution airborne geophysical survey, focused geochemical surveys and prospecting programs that may lead to a first phase diamond drilling campaign during the latter half of 2011 or early 2012.

### *Hornet Property, Kenora Mining Division, Ontario*

- Purchase Option Agreement entered into for 26 contiguous claims that protect a total of 5,744 hectares within the Kakagi-Rowan Lake Greenstone Belt ("KRLGB").
- By making aggregate cash payments of $121,000 and issuing a total of 200,000 shares over a four year period, the Company can acquire a 100% interest in the claims, subject to a 2% NSR, half of which may be purchased for a cash consideration of $1,000,000

The Hornet property adjoins Coventry Resources Ltd.'s Cameron Lake Gold Deposit which has an indicated and inferred mineral resource estimate of 11.3 million tonnes @ 2.77g/t gold for 1,005,833 ounces gold (using a 1.5g/t cut-off). The KRLGB forms part of the Wabigoon Subprovince which, in addition to the Cameron Lake Gold Deposit, hosts the Goliath, Rainy River and Hammond Reef deposits that contain gold resources of 1.1, 5.0, and 6.7 million ounces respectively.

Proposed 2011 work programs on the Hornet Property could include detailed airborne geophysical surveys (magnetic and electromagnetic), geochemical surveys (soil, till, and rock sampling) and if results warrant, phase 1 diamond drill testing.

### *Boxer Property, Kenora Mining Division, Ontario*

- Purchase Option Agreement entered into for five claims that encompass 464 hectares within the Kakagi-Rowan Lake Greenstone Belt
- By making aggregate cash payments of $96,000 and issuing a total of 200,000 shares over a four year period, the Company can acquire a 100% interest in the claims, subject to a 1.5% NSR, half of which may be purchased for a cash consideration of $750,000
- The Boxer claims are located approximately 70 kilometres southeast of the city of Kenora and 90 kilometres southwest of Dryden, Ontario.

Several historic gold showings are located within the Boxer claim group and the Cameron Lake Gold Deposit is centered approximately 20 kilometres northeast.

Proposed work programs for 2011 could include detailed airborne geophysical surveys (magnetic and electromagnetic), geochemical surveys (soil, till, and rock sampling). These programs will help determine the viability of a phase 1 diamond drill campaign which could be undertaken during the first half of 2012.

### *Buffalo Hills Property, Alberta*

- Held by the Buffalo Hills Joint Venture, which has three participants: EnCana Corporation, Shore Gold and the Company, whose percentage interests are approximately 34%, 33% and 33%, respectively. The Company is the Operator of the BHJV
- Located in north central Alberta, centered approximately 120 kilometres northeast of Peace River and 400 kilometres northwest of Edmonton
- In early 2010, 13 drill holes for an aggregate of 1,510 metres were completed on the K5, K6 and K91 kimberlites
- Cumulative net deferred exploration expenditures incurred by the Company through December 31, 2010 total $3,509,789

Until April 30, 2010, the Company and Shore Gold held an option (the "Option") to increase their respective interests in the BHJV by jointly funding 100% of the costs being incurred by the joint venture. The Option was originally granted to Ashton Diamonds by the other then-members of the BHJV, whereby Ashton Diamonds, by funding 100% of the joint venture's costs in the period August 1, 2006 through April 30, 2010, could increase its interest in the BHJV. The Option was part of the acquisition when the Company and Shore Gold jointly purchased Ashton's 45% interest in the BHJV in July 2007 (22.5% to each of the Company and Shore Gold - see News Release July 24, 2007). The Company's interest increased by a further 6% in December 2009 as a result of the Company and Shore Gold each purchasing one-half Burnstone Ventures' 12% interest in the BHJV (see News Release December 10, 2009). The combination of the interest purchased from Burnstone Ventures and the interest earned pursuant to the Option increased the interest of the Company and Shore Gold in the BHJV to approximately 33% each. EnCana Corporation holds a 34% interest.

Between 1997 and 2003 the BHJV discovered 38 kimberlites within the project area and in addition, collected bulk samples of 20 tonnes or more from five pipes. The largest of these samples, totaling 479 tonnes, was collected from the K14 pipe and yielded a grade of 0.12 carats per tonne. The Company and Shore Gold are continuing with a systematic evaluation of the extensive database on the Buffalo Hills project area that has been assembled since 1996. The companies' efforts are focused on the identification of kimberlite pipes suitable for development into advanced projects and on the identification of priority geophysical targets which could lead to new discoveries.

Since acquiring control of the BHJV, the primary objective of the Company and Shore Gold has been to drill the K5, K6, K14, K91 and K252 pipes with sufficient density to allow for the identification of the different kimberlite phases present as this knowledge will facilitate construction of accurate geologic models. Completion of such models should provide key information that will identify and prioritize the order in which pipes should be bulk sampled during subsequent follow-up campaigns.

A diamond drilling program consisting of 13 drill holes totaling 1,510 metres was completed in February and March 2010 on the K5, K6 and K91 pipes. All recovered drill cores were transferred to Shore Gold's core logging facility in Saskatoon for geological analysis. The geological examination of the cores was used in the development of three-dimensional geologic models for the K5, K6 and K91 kimberlite bodies, which can then be compared to the previously developed models for the K14 and K252 kimberlites. Ultimately, this work will aid in the identification of those kimberlites that warrant bulk sampling in subsequent field programs.

At the outset of 2010, total land holdings within the project area stood at 382,157 hectares comprised of 78 Permits and one Lease. In Alberta, Permits have a maximum 14-year term and by midyear, Permits protecting approximately 69,000 hectares reached their termination dates. The BHJV requested and was granted 21 Mineral Leases which now protect 31 kimberlites within a land package that totals 4,987 hectares. Annual rent for Mineral Leases is $3.50 per hectare. At year-end, a total of 318,000 hectares were protected by Permits and Leases.

### *Nickel Bay, Ontario*

The Company owns a 100% interest in the Nickel Bay property, subject to a 1.5% NSR. The Company has the right to purchase up to a cumulative two-thirds of the NSR by making three payments totaling $2,500,000.

### *Positive Uranium Fundamentals*

The uranium exploration properties the Company acquired in the transaction with Triex are, with the exception of the Mountain Lake deposit in Nunavut, at an early stage of exploration. Information on the individual properties is presented in the MD&A for the year ended December 31, 2009, a copy of which is filed under the Company's profile on the SEDAR website. Due to the relatively complex geology of the target areas for the properties in the Athabasca Basin, northern

Saskatchewan, exploring these properties will require a significant investment of technical and financial resources. Given the present lack of interest in the investment community for financing junior companies in the uranium exploration business, management has concluded that the projects would be better suited for evaluation by more senior companies. Accordingly, the Company will endeavour to negotiate option agreements whereby other parties take on the obligation and expense of further exploration on these properties.

The price of uranium rose dramatically from 2002 to 2007 in response to demand consistently exceeding mine production. The weekly spot price for yellowcake, as published by Ux Consulting, rose from its all-time low of approximately US$7.00 per pound of $U_3O_8$ in late 2000 to a record high of US$136 per pound in June, 2007. The spot price declined to approximately US$40 by June of 2010, but has since risen steadily to the current price of US$68.75 per pound of $U_3O_8$ (as of February 21, 2011).

The fundamentals of the uranium sector, from primary mine supply to down-stream nuclear power generation, remain positive. Approximately 15% of the world's electrical supply is currently supplied by nuclear power. Some 435 reactors are operating at the present time and more than 90 new reactors are planned in China, India and Russia alone by 2020. The Ux Consulting group announced last year that its baseline scenario is 640 reactors operating in 58 countries by 2030, amounting to an increase of nearly 60% in electricity production compared to current levels. As a consequence, uranium consumption is expected to grow from the 173.3 million pounds of $U_3O_8$ ("yellowcake") used each year at present to over 200 million pounds per year in 2020. Mine production was approximately 125 million pounds in 2007, meeting only about 65% of global demand. The supply deficit is not expected to ease because there is no indication from the past four years of exploration and development that new mine production will keep pace with increased down-stream demand for nuclear fuel. There is a general consensus that, even using base-case demand projections, the nuclear power industry will face a fuel supply shortage by 2013-2015 if significant new primary production does not come on stream to offset inventories that will soon disappear after some 30 years of drawdown.

## RESULTS OF OPERATIONS

The Company is in the business of exploring for, and where warranted, developing mineral deposits. For most of the time since its formation, the emphasis has been on diamond exploration. More recently, the Company broadened its exploration to include base metal properties in the James Bay Lowlands, seeking principally nickel mineralization. The Company added uranium to its portfolio of exploration properties upon acquiring Triex on December 11, 2009 and during 2010 began acquiring exploration properties in northwestern Ontario prospective for gold deposits. The Company has no producing properties, and consequently no sales or revenues.

### For the three months ended December 31, 2010

In the period, the Company recorded a loss of $40,726,144 (2009 - $998,985).

Expenses in the current three month period amounted to $498,479 (2009 - $635,316). The $136,837 decrease in expenses is largely attributable to substantially lower expenses for legal, audit and accounting ($244,777) and management fees and expenses ($92,576) in the current quarter. In the comparable quarter, considerable effort had been expended in preparing the documentation in respect of the proposed business combination between Diamondex and Triex. These decreases in the 2010 quarter's expenses were partially offset by a $141,794 increase in stock-based compensation in the current quarter. Comparisons of changes in rent, wages and benefits and cost recoveries between the two quarters are not valid, as the Company changed its accounting treatment of these expense categories during the fourth quarter 2010 and applied the change retroactively to the beginning of 2010. Under the former accounting treatment, rent and wages and benefits recovered from related parties were accounted for in the expense recovery category. Under the revised accounting treatment, rent and wages and benefits recovered from related parties are netted directly against their respective expense categories..

### For the twelve months ended December 31, 2010

In the period, the Company recorded a loss of $41,683,437 (2009 - $1,893,858).

Expenses in the current twelve month period amounted to $1,481,634 (2009 - $1,536,530). The $54,896 decrease in expenses is largely attributable to reductions of approximately $263,000 in legal, audit and accounting expenses and $99,000 in management fees and corporate services. The larger amounts recorded for these expenses in the 2009 period reflect costs incurred in connection with the business combination of the Company's predecessor (Diamondex Resources) and Triex Minerals. These reductions were partially offset by stock based compensation expense of $291,944 in the current period (2009 - $Nil) and an increase of approximately $76,000 in office and miscellaneous expenses in the current period, largely attributable to costs associated with the development of computer—based land management programs to better manage the Company's portfolio of mineral properties. The difference in costs between the two periods for rent, wages and benefits and cost recoveries are not valid, due to the change in accounting treatment for such costs, as discussed above for the fourth quarter results.

Interest income in the current period at $29,443 was higher than the $8,712 recorded in the comparable period, the result of higher cash balances in the current period.

Mineral property acquisition costs and deferred exploration costs written off in the current period were higher by $6,950,092 and $31,716,114, respectively.

### Summary of Quarterly Results

The following table summarizes information derived from the Company's financial statements for each of the eight most recently completed quarters:

| Quarter Ended: Year: | 2010 Dec 31 | 2010 Sep 30 | 2010 Jun 30 | 2010 Mar 31 | 2009 Dec 31 | 2009 Sep 30 | 2009 Jun 30 | 2009 Mar 31 |
|---|---|---|---|---|---|---|---|---|
| Net sales or total revenue | $Nil | $Nil | $Nil | $Nil | $Nil | $Nil | $Nil | $Nil |
| Income (loss) from continuing operations: | | | | | | | | |
| (i) in total (000s) | $(40,726) | $(247) | $(414) | $(297) | $(999) | $(277) | $(276) | $(342) |
| (ii) per share[(1)] | $(1.16) | $(0.01) | $(0.01) | $(0.01) | $(0.05) | $(0.01) | $(0.01) | $(0.02) |
| Net income (loss): | | | | | | | | |
| (i) in total (000s) | $(40,726) | $(247) | $(414) | $(297) | $(999) | $(277) | $(276) | $(342) |
| (ii) per share[(1)] | $($1.16) | $(0.01) | $(0.01) | $(0.01) | $(0.05) | $(0.01) | $(0.01) | $(0.02) |

(1) Fully diluted loss per share amounts are not shown as they would be anti-dilutive.

While the information set out in the foregoing table is mandated by *National Instrument 51-102,* it is management's view that the variations in financial results that occur from quarter to quarter are not particularly helpful in analyzing the Company's performance. It is in the nature of the business of junior exploration companies that unless they sell a mineral interest for a sum greater than the costs incurred in acquiring such interest, they have no significant net sales or total revenue. Because the majority of their expenditures consist of exploration costs that are capitalized, exploration companies' quarterly losses usually result from costs that are of a general and administrative nature.

Significant variances in the Company's reported loss from quarter to quarter most commonly arise from several factors that are difficult to anticipate in advance or to predict from past results. These factors include: (i) decisions to write off deferred exploration costs when management concludes there has been an impairment in the carrying value of a mineral property, or the property is abandoned, and (ii) the vesting of incentive stock options, which results in the recording of amounts for stock-based compensation expense that can be quite large in relation to other general and administrative expenses incurred in any given quarter.

The increase in the second quarter 2010 loss to $413,557 arose from the recording of stock-based compensation expense incurred due to the vesting of 947,500 stock options granted in that quarter.

The loss in the fourth quarter 2009 was largely due to the write-off of $950,675 of mineral property acquisition costs and $1,251,365 of deferred exploration costs, which, together with the expenses incurred in that quarter of $659,582 more than offset the future income tax recovery of $1,936,000 booked in the quarter.

## Selected Annual Information

| Year: | | 2010 | | 2009 | | 2008 |
|---|---|---|---|---|---|---|
| Net sales or total revenue | $ | Nil | $ | Nil | $ | Nil |
| Loss from continuing operations: | | | | | | |
| (i) Total (000s) | $ | (41,683) | $ | (1,894) | $ | (6,997) |
| (ii) per share[(1)] | $ | (1.17) | $ | (0.10) | $ | (0.40) |
| Net loss: | | | | | | |
| (i) Total (000s) | $ | (41,683) | $ | (1,894) | $ | (6,997) |
| (ii) per share[(1)] | $ | (1.17) | $ | (0.10) | $ | (0.40) |
| Total assets (000s) | $ | 34,397 | $ | 76,636 | $ | 74,048 |

(1) Per share amounts are calculated using the weighted average number of shares outstanding. Fully diluted loss per share amounts have not been calculated, as they would be anti-dilutive.

### Financing Activities

The Company did not complete any equity financings in 2010. In 2009, in anticipation of the business combination of Diamondex and Triex, Triex advanced $1,566,750 to the Company prior to completion of the business combination. In 2009, the Company borrowed and repaid $200,000 from a related party. There were no comparable transactions in 2010.

### Investing Activities

During 2010, the Company incurred $116,000 (2009 – $375,000) to acquire mineral properties. In the respective years, the Company incurred $1,624,556 (2009 - $1,970,352) in gross deferred exploration costs, with cash exploration expenditures during the year of $1,624,297 (2009 - $2,462,748) and recovered $413,186 (2009 - $261,037) from partners for exploration expenditures incurred by the Company as operator of joint venture properties.

Refunds of exploration deposits received in 2010 amounted to $142,194 (2009 - $373,591). Refunds of exploration deposits arise when expenditures on specific properties exceed the amounts stipulated in the exploration permits for such properties. The Company incurred $16,300 for exploration advances in the current year (2009 - $Nil).

As a result of the business combination with Triex in 2009, the Company acquired cash in the amount of $3,581,613 (2010 - $Nil) and invested $8,736 in the acquisition of capital assets (2010 - $Nil).

### Transactions with Related Parties

During 2010, the Company entered into the following transactions with related parties:

a) Paid or accrued $17,149 (2009 - $16,562) for administrative fees included in management fees and corporate services to Rand Explorations Ltd. ("Rand"), a company controlled by Randy Turner, a director of the Company.
b) Paid or accrued $29,376 (2009 - $38,250) for consulting fees included in deferred exploration costs to Rand.
c) Paid or accrued $191,464 (2009 - $218,790) for management fees to Rand.
d) Paid or accrued $22,301 (2009 - $35,795) for consulting services to Adera Company Management Inc., a company controlled by J. Christopher Mitchell, the Company's Chief Financial Officer.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Receivables at December 31, 2010 included $108 (2009 - $4,488) due from companies with common directors. Accounts payable and accrued liabilities at the same date included $5,116 (2009 - $88,717) due to companies controlled by directors and officers. During 2009, the Company received and subsequently repaid a $200,000 non-interest bearing loan from Rand.

## LIQUIDITY AND CAPITAL RESOURCES

The Company has no operations that generate cash flow. The Company's future financial success will depend on the discovery of one or more economic mineral deposits. This process can take many years, can consume significant resources and is largely based on factors that are beyond the control of the Company and its management.

To date, the Company has financed its activities by the private placement of equity securities, consisting of a combination of flow-through and non-flow-through securities, as well as option payments received on properties it has optioned to third parties. In order to continue funding its exploration activities and corporate costs, the Company is reliant on its ongoing ability to raise financing through the sale of equity. This is dependent on positive investor sentiment, which in turn is influenced by a positive climate for diamond exploration generally, a company's track record, and the experience and caliber of a company's management. There is no assurance that equity funding will be accessible to the Company at the times and in the amounts required to fund the Company's activities.

### Cash and Financial Condition

The Company had working capital of $480,617 at December 31, 2010 ($2,773,192 at December 31, 2009). Throughout 2010, the Company continued to enforce a cost containment program initially implemented during 2008. The program has included reductions in staffing levels and office space, elimination of non-essential travel and other corporate expenses and a curtailment of discretionary exploration activities.

Additional funds will be needed to finance any significant exploration of the Company's properties during 2011 and to provide working capital to cover administrative expenses. The form of such funding could be an equity financing or the sale of an interest in one or more of its properties.

The Company has no debt, does not have any unused lines of credit or other arrangements in place to borrow funds, and has no off-balance sheet arrangements. The Company has no current plans to use debt financing and does not use hedges or other financial derivatives.

The Company manages its liquidity risk (i.e., the risk that it will not be able to meet its obligations as they become due) by forecasting cash flows from operations together with its investing and financing activities. Expenditures are adjusted to ensure liabilities can be funded as they become due. Management and the Board of Directors are actively involved in the review, planning, and approval of significant expenditures and commitments.

### Financial Instruments

The Company's financial instruments consist of cash, receivables, exploration deposits and accounts payable and accrued liabilities. The fair values of receivables, exploration deposits and accounts payable and accrued liabilities approximate their book values because of the short-term nature of these instruments. The fair value of cash is measured based on level 1 of the fair value hierarchy. 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.

## CHANGES IN ACCOUNTING POLICIES

*Business Combinations, Consolidations, Non-Controlling Interests*

In January 2009, the CICA issued Handbook Sections 1582 *Business Combinations*, 1601 *Consolidated Financial Statements* and 1602 *Non-controlling Interests* which replace CICA Handbook Sections 1581 *Business Combinations* and 1600 *Consolidated Financial Statements*. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. These Sections are applicable for interim and annual consolidated financial statements for fiscal years beginning January 1, 2011. Early adoption of these Sections is permitted and all these Sections must be adopted concurrently.

## OUTSTANDING SECURITIES AT THE REPORT DATE

On the Report Date, the Company had 35,957,743 shares outstanding, or 38,479,743 shares on a fully diluted basis. At the Company's Annual General Meeting held on December 9, 2010, the disinterested shareholders approved a proposal to reprice to $0.33 per share a total of 1,312,750 outstanding stock options having exercise prices ranging from $0.41 to $7.50 per share that were held by Insiders of the Company. The Company has 2,522,000 options outstanding with expiry dates ranging from June 12, 2011 through October 28, 2015, with exercise prices ranging from $0.25 to $0.33.

## CHANGEOVER PLAN TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

In February 2008, the Accounting Standards Board ("AcSB") confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011, with early adoption allowed starting in calendar year 2009. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. In the period leading up to the changeover, the AcSB will continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS at the changeover date.

For the Company, the changeover to IFRS will be required for interim and annual financial statements beginning on January 1, 2011, with comparative information to be provided under the IFRS rules as well. As a result, the Company has begun to develop a plan to convert its Consolidated Financial Statements to IFRS. Accounting policies initially identified for evaluation include First Time Adoption (IFRS 1), Exploration for and Evaluation of Mineral Resources (IFRS 6, IAS 16, IAS 38), Impairment of Assets (IAS 36, IFRIC10) and Share-based Compensation (IFRS 2). As part of its preparation for the changeover, the Company has begun providing training to key employees, arranging for personnel to attend workshops and industry-sponsored conferences, and circulating copies of newsletters and pamphlets distributed by accounting firms and others on various IFRS issues and topics to those individuals responsible for developing and implementing the conversion plan. The Company will be monitoring the impact of the transition on its business practices, systems and internal controls over financial reporting. At the present time, it does not appear conversion to IFRS will impact on such matters as how the Company accounts for its mineral properties, foreign currency transactions and hedging activities as the Company does not engage in the latter activity, and the magnitude of its foreign currency transactions, based on past experience, is very modest. Nor does the Company anticipate that implementation of IFRS will have any material impact on the Company's disclosure controls and procedures.

## OUTLOOK

### Corporate Development Strategy

Strong prices for certain commodities, gold and copper in particular, during 2010 have stimulated strong investor interest in purchasing shares in exploration companies with exposure to such commodities, enabling them to raise financing for exploration. The junior exploration sector focused on uranium projects has seen a modest recovery in activity and share prices over the past several months, but investor interest in companies exploring for diamonds continues to be lackluster and locating sources of financing remains difficult.

The Company regularly evaluates and discusses with other parties potential transactions and corporate opportunities for entering into joint ventures, strategic alliances, partnerships or other arrangements to defray exploration costs on its properties. The Company will relinquish or abandon properties that are not deemed to have sufficient potential to host economic deposits. Consequently, the Company's property portfolio, and hence its ongoing property maintenance and exploration costs, can be expected to change over time. The Company also intends to broaden its exposure to gold by acquiring interests in properties with significant exploration potential for hosting gold deposits. As an initial step in this direction, Canterra entered into purchase option agreements in respect of three gold properties in northwestern Ontario – see "Primary Assets of the Company – Drake & Essex Properties, Hornet Property and Boxer Property".

### Exploration Expenditures

Management is currently re-evaluating plans for the Company's exploration projects. In the absence of a significant discovery that would re-ignite investor interest in Canadian diamond and uranium exploration plays, securing the financing needed to fund new exploration programs on acceptable terms will be difficult, for the reasons discussed above. As a consequence, management anticipates that for the near-term, other than to advance its gold properties in Ontario, the Company will restrict its exploration expenditures to those required to maintain its core properties.

## RISK FACTORS RELATING TO THE COMPANY'S BUSINESS

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As a company active in the mineral resource exploration and development industry, the Company is exposed to a number of risks, including the financial risks associated with the fact that it has no operating cash flow and must access the capital markets to finance its activities.

Exploration is a capital intensive business activity, typically with long lead times between the dates exploration expenses are incurred and the time the exploration company can derive a profit from such investments. As a consequence, junior exploration companies such as Canterra are very reliant upon accessing the equity markets, as they are not generally in a position to generate cash flow internally. Share prices of companies in the junior exploration sector can be quite volatile and at times there can be a lack of liquidity, if trading volumes decrease to very low levels.

Negotiations with First Nations' groups can add an additional layer of risk and uncertainty to efforts to explore and develop mineral deposits in many areas of Canada. In the Ring of Fire area of northern Ontario, First Nations groups, protesting the lack of consultation by the provincial government in setting policies respecting land use and mineral development, blocked access to airstrips at the beginning of the 2010 exploration field season. This action severely disrupted the work plans and schedules for a number of companies planning to undertake seasonal exploration activities in the area in early 2010 and similar blockades are threatened for the 2010/2011 winter season. Winter is the optimum season for exploring in the James Bay Lowlands, as the swamps and muskeg are frozen, allowing relatively unhindered access by heavy equipment to drill pad locations. The actions of these groups did not have a significant impact on the Company in early 2010, as it had not implemented its planned activities for field work when the airstrips were closed. However, if similar disputes were to arise in the future, they could adversely impact the Company's ability to execute exploration programs on the Nickel Bay property in a timely and cost-effective manner.

There can be no assurances the Company will continue to be able to access the capital markets for the funding necessary to acquire and maintain exploration properties and to carry out its desired exploration programs. The Company may need to further reduce activities if funding is unavailable when required. In addition to this having an impact on its wholly-owned projects, the Company could find itself in a position at a future time where it is unable to fund its share of costs incurred under joint venture agreements to which it is a party and its interest in such joint ventures could be reduced or eliminated as a result.

The Company is very reliant upon its existing management and if the services of such personnel were withdrawn for any reason, this could have a material adverse impact on the Company's operating activities.

There is intense competition within the minerals industry to acquire properties of merit and the Company competes with other companies possessing greater technical and financial resources than itself. Even if desirable properties are secured, there can be no assurances that the Company will be able to execute its exploration programs on its proposed schedules and within its cost estimates, whether due to weather conditions in the areas where it operates, increasingly stringent environmental regulations and other permitting restrictions, or other factors related to exploring in areas that lack infrastructure and where essential supplies and services may not be readily available.

None of the properties in which the Company has an interest contain identified mineral resources at the present time. Ultimately, even if the Company is successful in identifying mineral resources on its properties, the economics of potential projects may be affected by many factors beyond the capacity of the Company to anticipate and control, such as the marketability of the mineral products under profitable conditions, government regulations relating to health, safety and the environment, the scale and scope of royalties and taxes on production and demands for "value added" processing within Canada of the minerals produced here. One or more of these risk elements could have a material adverse impact on costs of an operation, which, if significant enough, could reduce or eliminate the profitability of a particular project.

The effects of global warming on Canada are expected to be dramatic, especially so for the High Arctic. Many northern exploration projects, including those on several of the Company's properties, are supplied by moving fuel and other goods along winter ice roads from Yellowknife, NWT. Mild winter conditions can delay the opening of the winter road and that may disrupt the transportation by road of the materials needed to support the operating mines and various exploration projects. To the extent some portion of the materials must be moved using air transport, costs will be significantly higher.

The Company's exploration activities require permits from various governmental agencies charged with administering laws and regulations governing exploration, labour standards, occupational health and safety, control of toxic substances, waste disposal, land use, environmental protection and other matters. Failure to comply with laws, regulations and permit conditions could result in fines and/or stop work orders, costs for conducting remedial actions and other expenses. In addition, legislated changes to existing laws and regulations could result in significant additional costs to comply with the revised terms and could also result in delays in executing planned programs pending compliance with those terms.

## FOREWARD LOOKING INFORMATION

Certain of the statements made and information contained herein is "forward-looking information" within the meaning of the British Columbia Securities Act, the Alberta Securities Act and the Ontario Securities Act. This includes statements concerning the Company's plans at its mineral properties, which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information. Forward-looking information is subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking information, including, without limitation, the ability of the Company to continue to be able to access the capital markets for the funding necessary to acquire and maintain exploration properties and to carry out its desired exploration programs; inability to fund the Company's share of costs incurred under joint venture agreements to which it is a party, and reduction or elimination of its joint venture interest as a result; competition within the minerals industry to acquire properties of merit, and competition from other companies possessing greater technical and financial resources; difficulties in executing exploration programs on the Company's proposed schedules and within its cost estimates, whether due to weather conditions in the areas where it operates, increasingly stringent environmental regulations and other permitting restrictions, or other factors related to exploring in the north, such as the availability of essential supplies and services; factors beyond the capacity of the Company to anticipate and control, such as the marketability of diamonds, government regulations relating to health, safety and the environment, the scale and scope of royalties and taxes on production, and demands for "value added" processing of rough diamonds in northern Canada; unusually mild winter conditions affecting or delaying the opening of the winter roads and resulting difficulties in transporting materials needed to support various exploration projects and resulting increased costs of transport by air; the availability of experienced contractors and professional staff to perform work in a competitive environment and the resulting adverse impact on costs and performance and other risks and uncertainties, including those described in each management's discussion and analysis of financial condition and results of operations. In addition, forward-looking information is based on various assumptions including, without limitation, assumptions associated with exploration results and costs and the availability of materials and skilled labour. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward-looking statements. Accordingly, readers are advised not to place undue reliance on forward-looking information. Except as required under applicable securities legislation, the Company undertakes no obligation to publicly update or revise forward-looking information, whether as a result of new information, future events or otherwise.