

## **CANTERRA MINERALS CORPORATION**

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

For the three- and six-month periods ended June 30, 2011

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 six-month periods ended June 30, 2011 (respectively, the "second quarter 2011" and the "first half 2011") with the comparable periods in 2010 (respectively, the "second quarter 2010" and the "first half 2010"). This MD&A should be read in conjunction with the condensed consolidated interim financial statements for the period ended June 30, 2011, which are prepared in accordance with International Accounting Standards ("IAS") 34 – *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"), as well as the 2010 audited consolidated financial statements which were prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Canterra's audited financial statements for 2010, the unaudited condensed consolidated interim financial statements for the first quarter and first half 2011 and additional information relating to Canterra are available under the Company's profile on the SEDAR website at [www.sedar.com](http://www.sedar.com).

For a discussion of Canterra's adoption of International Financial Reporting Standards ("IFRS"), refer to page 9 of this MD&A.

The information in this MD&A is provided as of the date of this MD&A, August 25, 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.

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 remained subdued through the first half 2011, the Company has kept the focus of its exploration efforts on evaluating opportunities to acquire mineral properties with potential to host precious metal deposits. The three properties acquired in late 2010 in the Superior Structural Province in northwestern Ontario. Five additional properties were acquired by staking in the first quarter 2011. All eight properties are in a region which hosts a number of world-class gold and base metal deposits and which 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, will continue to be carried on a "care and maintenance" basis until there is evidence of renewed investor interest in funding exploration of diamond and uranium prospects.

Since its formation in 1999, the Company has accumulated losses of approximately \$68,900,000. As noted in Note 1 to the consolidated financial statements for the period ended June 30, 2011, 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

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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 471,000 hectares. The geographic distribution of the Company's property holdings are set forth in the following table:

<b>Jurisdiction</b>	<b>Hectares</b>
Alberta	314,199
Nunavut & Northwest Territories	12,947
Ontario	56,560
Saskatchewan	84,562
Other	2,980
	<hr/>
	471,248
	<hr/> <hr/>

During the winter of 2007/2008, the Company carried out a major staking campaign and acquired mineral rights to more than 414,000 acres in the emerging "Ring of Fire" region in the James Bay Lowlands area. Several airborne geophysical surveys were carried out to identify anomalies, which allowed the Company to reduce its claim holdings to approximately 31,000 hectares covering the more promising anomalies identified during the surveys. The acquisition in late 2010 of three Purchase Option Agreements as well as the staking of five new gold properties in northwestern Ontario added approximately 15,000 and 8,200 hectares, respectively, 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 the first half 2011 amounted to \$163,000 and were incurred largely on the Ontario properties.

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. Early stage exploration programs are also proposed for the five recently staked properties located in the Kenora and Thunder Bay Mining Divisions.

#### ***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

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- 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). A phase 1 drill program could be conducted on targets of merit during the 2011/2012 winter field season

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 1.2, 6.7, 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 could begin in the first half of 2012.

#### ***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

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- 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.

During the first quarter 2011 the Company staked five new gold prospective properties within the Kenora and Thunder Bay Mining Divisions in northwestern Ontario. In total, thirty-five mineral claims comprising 8,256 hectares were staked following a focused review of the available lake sediment and glacial till geochemical surveys, mapped and interpreted faults and shear zones and related hydrothermal alteration and/or significant gold assay values for bedrock associated with these structures. The Taylor, Revell River, Esox, Chartrand, and Bedivere properties are hosted within the Archean aged Wabigoon Subprovince which is a very prospective terrain that hosts several million ounce gold deposits including Rainy River, Hammond Reef, Goliath and Cameron Lake. The Company considers the five recently staked properties as highly prospective grassroots projects and as such, proposes to undertake a comprehensive Phase 1 exploration program during the current year. Exploration initiatives may include detailed airborne magnetic and electromagnetic surveys, as well as prospecting programs that will include systematic soil and rock sampling. Diamond drill testing will be completed on targets of merit.

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

- Located 100 km northeast of Ft. Frances and 50 km southeast of Dryden
- 10 claims comprising 2,272 hectares, 100% owned by Canterra
- Claims protect a segment of the northeast trending Taylor Lake fault as well as an area of strongly anomalous gold and silver assays from lake sediments reported by the Ontario Geological Survey ("OGS")

#### ***Revell River Property, Kenora Mining Division, Ontario***

- Three claims protecting 736 hectares adjacent to the Trans Canada Highway protect localities where lake sediment samples returned weak gold anomalies
- Previous work by Hemlo Gold adjacent to or within the Revell River claim block in the 1990's identified strong gold in soil anomalies and gold-bearing quartz-sericite alteration in bedrock
- Property is underlain by metasedimentary and metavolcanic rocks of the Wabigoon-Raleigh greenstone belt
- The Revell River Property is centered 67 km southeast of Dryden and 27 km northwest of Ignace

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

- Centered 85 km southwest of Dryden and 50 km north of Ft. Francis, the five claim property totals 960 hectares
- Underlain by metavolcanics and sub-volcanic porphyry units of the western Wabigoon greenstone belt which have been identified as being highly prospective for gold mineralization by the OGS. Within the bounds of the claim group the OGS and the Geological Survey of Canada have identified gold as well as lead, antimony, copper and cadmium (pathfinder) anomalies from both glacial till and lake sediment samples

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

- Nine claims comprising 2,304 hectares that straddle splays of the Marmion Lake fault which are coincident with gold anomalies from lake sediments
- Approximately 75 km to the southeast, similarly oriented splays of the Marmion Lake Fault are thought to be structurally related to Osisko Mining Corp's multi-million ounce Hammond Reef gold deposit
- The Chartrand property is located approximately 45 km east of Ignace and 80 km northeast of Atikokan

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#### ***Bedivere Property, Thunder Bay Mining Division, Ontario***

- Eight claims totaling 1,984 hectares are underlain mainly by metavolcanic and mafic to ultramafic intrusive units of the Lac des Milles Lac greenstone belt of the central Wabigoon Subprovince
- The claims cover northeast trending splays off the major terrane-bounding Quetico Fault. Similarly oriented to the Marmion Lake Fault system, these northeast trending splays coincide with anomalous gold, silver and arsenic values from lake sediment samples
- The property covers the Sandy Lake, Andrews North and Andrews South gold-bearing quartz vein occurrences reported by previous workers
- Bedivere claims are centered 45 m east of Atikokan and 130 km northwest of Thunder Bay

#### ***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 June 30, 2011 total \$3,520,060.

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.

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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. Cumulative expenditures on the Nickel Bay property, net of option payments, have totaled approximately \$2,604,550.

#### ***Uranium Markets***

The destruction of the Fukushima nuclear power plant and release of radioactive particles into the atmosphere and marine environments following the large earthquake and tsunami off northern Japan on March 11, 2011 rekindled public concern about the safety of nuclear energy. The impact on uranium markets was felt immediately, with the market capitalization of many of the junior companies in the uranium exploration sector dropping by 25% to 50% over the following days. By contrast, the decline in the price of U<sub>3</sub>O<sub>8</sub> was less severe, dropping from about US\$70.00 per pound before the earthquake to about US\$50.00 per pound currently.

A number of European governments have announced plans to phase out their nuclear power plants. Noticeably absent from the list is France, where over 70% of the country's electricity is generated by such plants. Moreover, most developing countries, which represent the real growth potential for nuclear power, appear to be committed to continuing with the expansion of their nuclear generating capacity. As a result, the outlook is for demand for U<sub>3</sub>O<sub>8</sub> to continue to outstrip new mine production. With above ground inventories having been largely run-down over the past several years, concern about the availability of U<sub>3</sub>O<sub>8</sub> supplies will continue to support higher prices. As this situation becomes more widely known, it is thought that investors will once again be seeking investment opportunities in the uranium exploration sector.

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. Management has concluded that the Company's uranium exploration 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.

### **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 six months ended June 30, 2011**

In the period, the Company recorded a loss and comprehensive loss of \$434,478 (2010 - \$710,590).

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Expenses in the first half 2011 were \$379,066, down sharply from the \$736,292 loss recorded in the first half 2010. There were significant reductions in share-based compensation expense (\$Nil versus 2010 \$150,150) as no options were granted in the first half 2011; management fees and corporate services (\$24,986 versus 2010 - \$172,321), much of which is the result of a reduction in the management fees paid to related parties; and wages and benefits (\$130,288 versus 2010 - \$192,908) largely due to a continuing retrenchment of personnel. Most other expense categories also recorded costs that were lower in the current period versus the comparable period. In the first half 2010, a total of \$150,621 of costs was recovered from third parties. There was no comparable recovery of costs in the first half 2011.

During the first half 2011, the Company wrote-off \$56,947 of deferred exploration costs previously incurred on mineral properties located in the Northwest Territories.

**For the three months ended June 30, 2011**

In the period, the Company recorded a loss and comprehensive loss of \$135,852 (2010 - \$413,557).

Expenses in the second quarter 2011 were \$135,858, down from \$415,210 in the comparable quarter. The reasons for the reductions were similar to those responsible for the cost reductions realized in the first half 2011 versus the comparable period.

**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:	Prepared in accordance with IFRS						Prepared in accordance with Canadian GAAP	
	2011 June 30	2011 Mar. 31	2010 Dec. 31	2010 Sep. 30	2010 June 30	2010 Mar. 31	2009 Dec. 31	2009 Sep. 30
Net sales or total revenue	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil
Income (loss) from continuing operations:								
(i) in total (000s)	\$(136)	\$(299)	\$(40,768)	\$(247)	\$(414)	\$(297)	\$(999)	\$(277)
(ii) per share <sup>(1)</sup>	\$(0.01)	\$(0.01)	\$(1.16)	\$(0.01)	\$(0.01)	\$(0.01)	\$(0.05)	\$(0.01)
Net income (loss):								
(i) in total (000s)	\$(136)	\$(299)	\$(40,768)	\$(247)	\$(414)	\$(297)	\$(999)	\$(277)
(ii) per share <sup>(1)</sup>	\$(0.01)	\$(0.01)	\$(1.16)	\$(0.01)	\$(0.01)	\$(0.01)	\$(0.05)	\$(0.01)

(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.

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The increase in the fourth quarter 2010 loss to \$40,768,000 was largely due to write-offs of approximately \$6,950,000 and \$31,716,000 of mineral property acquisition costs and deferred exploration costs, respectively.

The increase in the second quarter 2010 loss to \$414,000 arose from the recording of share-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.

#### **Financing Activities**

The Company did not complete any equity financings in the first half of 2011 or 2010.

#### **Investing Activities**

During the first half 2011, the Company incurred \$222,346 (2010 - \$650,270) in mineral property acquisition and deferred exploration costs.

Refunds of exploration deposits received in the first half 2011 amounted to \$138,088 (2010 - \$142,194). Refunds of exploration deposits arise when expenditures on specific properties exceed the amounts stipulated in the exploration permits for such properties.

#### **Transactions with Related Parties**

During the first half 2011, the Company entered into the following transactions with related parties:

- a) Paid or accrued \$Nil (2010 - \$8,067) 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 \$21,250 (2010 - \$110,976) in management fees to Rand.
- c) Paid or accrued \$3,750 (2009 - \$19,584) for geologic consulting fees included in deferred exploration costs to Rand.
- d) Paid or accrued \$6,236 (2010 - \$8,278) for consulting fees included in management fees to Adera Company Management Inc., a company controlled by J. Christopher Mitchell, the Company's Chief Financial Officer.
- e) Paid or accrued wages included in wages and benefits of \$50,000 (2010 - \$Nil) to David Clarke, the President of the Company.
- f) Paid or accrued wages included in mineral properties of \$50,000 (2010 - \$Nil) to David Clarke, the President of the Company.

Receivables at June 30, 2011 included \$31,569 (December 31, 2010 - \$108) due from companies with common directors. Accounts payable and accrued liabilities at the same date included \$173,623 (December 31, 2010 - \$5,116) due to companies controlled by directors and officers

#### **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

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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 \$49,188 at June 30, 2011 (\$480,617 at December 31, 2010). Throughout the period, 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 classifies its financial assets into four categories: (i) fair value through profit or loss, (ii) loans and receivables; (iii) held-to-maturity investments, and (iv) available-for-sale. All financial assets other than those measured at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset and such event(s) has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

The Company classifies its financial liabilities into one of two categories: (i) fair value through profit or loss, and (ii) other financial liabilities.

Further information regarding the Company's financial instruments is set forth in Note 3 to the condensed consolidated interim financial statements for the six months ended June 30, 2011.

#### **OUTSTANDING SECURITIES AT THE REPORT DATE**

On the Report Date, the Company had 35,957,743 shares outstanding, or 38,163,243 shares on a fully diluted basis. The Company has 2,205,500 options outstanding with expiry dates ranging from January 22, 2012 through October 28, 2015, with exercise prices ranging from \$0.25 to \$0.33 per share.

#### **INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")**

##### **Transition from pre-changeover Canadian generally accepted accounting principles ("pre-changeover Canadian GAAP") to IFRS**

The quarter ending June 30, 2011, with comparative financial results for the second quarter 2010 is Canterra's second interim period reported under IFRS. The condensed consolidated interim financial statements, including comparative figures, have been prepared in accordance with IAS 34 – *Interim Financial Reporting*.

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Through December 31, 2010, Canterra's financial statements were prepared in accordance with pre-changeover Canadian GAAP. While IFRS uses a conceptual framework similar to pre-changeover Canadian GAAP, there are significant differences in recognition, measurement and disclosures. In the Company's MD&A for the year ended December 31, 2010, it was disclosed that conversion to IFRS would appear to not impact on such matters as how the Company accounts for its mineral properties (capitalization of exploration costs is permitted under both IFRS and pre-changeover Canadian GAAP), 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. Moreover, as Canterra does not generate sales or revenues, differences in revenue recognition practices between pre-changeover Canadian GAAP and IFRS is not a factor in assessing the impact of the conversion to IFRS on the Company's accounts.

A discussion of the significant IFRS accounting policies that have been adopted by the Company is presented in note 3 to the condensed consolidated interim financial statements for the period ended June 30, 2011. The adoption of IFRS resulted in changes to the condensed consolidated interim statements of financial position but did not affect the statements of comprehensive loss for the Company as previously reported under pre-changeover Canadian GAAP.

Reconciliations from prechangeover Canadian GAAP to IFRS for the statements of financial position are presented in note 16 to the the condensed consolidated interim financial statements for the period ended June 30, 2011.

As demonstrated in the tables, the impact of the transition to IFRS was largely confined to changes in equity accounts for each of the three periods, namely debits to reserves and off-setting credits to share capital and to deficit. Under IFRS, the Company can reverse the fair value of share-based awards when the award is cancelled or forfeited. Under GAAP, the fair value of share-based awards could not be reversed regardless of the awards forfeiture or cancellation. Therefore, on transition the Company has reversed the valuation of all historical share based awards which were subsequently cancelled or forfeited.

Canadian GAAP has specific guidance for the treatment of flow-through shares, which are an equity instrument unique to Canada but there is no specific equivalent guidance under IFRS. Under the IFRS framework, the Company accounts for flow-through shares whereby the premium paid for the flow-through shares in excess of the market value of shares without flow-through features at the time of issue is credited to other liabilities and then included in income at the time the qualifying expenditures are made.

The effect of the transition to IFRS on the statement of cash flows was negligible and the presentation of reconciliation tables for cash flows has been omitted, as inclusion of such reconciliations would not provide the reader with meaningful information.

IFRS 1 gives reporting entities adopting IFRS for the first time a number of optional exemptions and mandatory exceptions in certain areas, to the general application of full retrospective application of IFRS.

#### ***Optional exemptions:***

- (a) to apply the requirements of IFRS 3 - *Business Combinations*, prospectively from January 1, 2010 (the "Transition Date"), and
- (b) to apply the requirements of IFRS 2 - *Share-based payments*, only to equity instruments granted after November 7, 2002 which had not vested as of the Transition Date.

#### ***Mandatory exceptions:***

##### *Estimates*

In accordance with IFRS 1, an entity's estimates under IFRS at the Transition Date must be consistent with estimates made for the same date under pre-changeover Canadian GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of January 1, 2010 are consistent with its pre-changeover Canadian GAAP estimates for the same date.

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#### **Other**

The transition to IFRS from pre-changeover Canadian GAAP did not have a material impact on the Company's internal controls over financial reporting and disclosure controls and procedures.

#### **OUTLOOK**

##### **Corporate Development Strategy**

Strong prices for several commodities, gold and copper in particular, throughout 2010 and continuing through the first half 2011 continue to encourage investor interest in purchasing shares in exploration companies with exposure to such commodities, enabling them to raise financing for exploration. The junior exploration sector that is focused on uranium projects has seen a modest recovery in activity and share prices over the past several weeks after the sell-off in response to the Fukushima nuclear power incident, 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 and staked five additional properties in northwestern Ontario – see "Primary Assets of the Company".

##### **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 limit its exploration expenditures to those required to maintain its core properties.

#### **RISK FACTORS RELATING TO THE COMPANY'S BUSINESS**

##### **Risk Factors Relating to the Company's Business**

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 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 in the Ring of Fire area 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 the unrest spread to northwestern Ontario at the beginning of the 2010/2011 winter

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season. While the Company endeavoured to engage First Nations' representatives in discussions concerning Canterra's specific projects, meetings could not be scheduled at a time that would have allowed the Company to complete its proposed winter exploration program prior to spring break-up. Winter is the optimum season for exploring in northern Ontario, as the swamps and muskeg are frozen, allowing relatively unhindered access by heavy equipment to drill pad locations. Management concluded that it would be unlikely that the proposed winter exploration program could be completed in a timely and cost-effective manner and elected to cancel the program.

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.

With the exception of the Mountain Lake uranium deposit in Nunavut, 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.

Uranium is possibly unique as a commodity, in the sense that a single industrial accident involving a nuclear power plant can have a powerful adverse psychological impact on the general public and the equities markets. Moreover, the uranium sector in all its aspects, including exploration, is vulnerable to governments adopting policies detrimental to the industry, whether it be deciding to phase out nuclear power plants, restricting the processing and transportation of U<sub>3</sub>O<sub>8</sub> or placing moratoriums on exploration for uranium.

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**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.