

# **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 six-months ended June 30, 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 six-month periods ended June 30, 2010 (the "second quarter 2010" and "first half 2010, respectively) with the comparable periods in 2009 (the "second quarter 2009" and "first half 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](http://www.sedar.com).

The information in this MD&A is provided as of the date of this MD&A, August 11, 2010 (the "Report Date").

### **DESCRIPTION AND OVERVIEW OF BUSINESS**

The Company is a resource exploration company focused on the exploration of diamond, base metal and uranium properties in Canada, principally in the Northwest Territories, Nunavut, Alberta, Saskatchewan and 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.

Historically, the Company had 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 block (724 mining claims) totaling 414,385 acres in the James Bay Lowlands of northern Ontario, which is believed to be highly prospective for base metals, including nickel deposits (the "Nickel Bay property"). The Company owns a 100% interest in the Nickel Bay property, subject to a 1.5% net smelter return ("NSR") royalty interest that was granted to Canada Nickel Corp. in late November 2009. The Company may repurchase up to a cumulative two-thirds of the royalty interest by making three payments totaling \$2,500,000 (see press release dated November 27, 2009).

In response to deteriorating market conditions in 2008, the Company implemented a cost containment program. Currently, the Company's properties, other than for the Buffalo Hills joint venture ("BHJV") diamond exploration project in central Alberta, are on "care and maintenance" until there is a strengthening of investor interest in funding exploration of diamond and uranium prospects.

Exploration expenditures in the first half of 2010 amounted to approximately \$995,000 and were incurred largely on the BHJV project. Work on this project consisted of drilling thirteen exploratory holes for an aggregate of 1,500 metres, primarily testing the K5, K6 and K91 kimberlite pipes. The recovered core is being examined at Shore Gold's core logging facility in Saskatoon and work continues on constructing geologic models of several kimberlite pipes.

Until April 30, 2010, the Company and Shore Gold held an option to increase their respective interests in the BHJV by jointly funding 100% of the costs being incurred by the joint venture. As a result of funding those costs and the purchase by the Company and Shore Gold of the interest of Burnstone Ventures in the BHJV in December 2009, each of the Company and Shore Gold currently holds approximately a 33% interest in the BHJV. EnCana Corporation, the other member of the BHJV, currently holds approximately a 34% interest. The Company continues to serve as the Operator of the joint venture.

Since its formation in 1999, the Company has accumulated losses of approximately \$30,261,000. As noted in Note 2 to the consolidated financial statements for the period ended June 30, 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.

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

For the three- and six-months ended June 30, 2010

#### 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 the aggregate, the Company's property holdings at the Report Date encompass approximately 2,164,000 acres, of which approximately 1,220,000 acres are held by means of mineral claims and leases. The nature and geographic distribution of the Company's property holdings are set forth in the following table:

Jurisdiction	Permits		Mineral Claims & Leases	
	Number	Total Acres	Number of	Total Acres
Northwest Territories	-	-	140	290,242
Nunavut	-	-	147	375,012
Alberta	78	944,331	-	-
Saskatchewan	-	-	14	161,296
Ontario	-	-	710	393,629
Totals		<u>944,331</u>		<u>1,220,179</u>

The Company is in the process of submitting applications to convert a number of the Alberta Metallic and Industrial Mineral Permits to leases.

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 394,000 acres.

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**

Most of the Company's properties were on "care and maintenance" during the first half 2010, 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 in January and February, the Company focused its first half 2010 exploration efforts on further evaluation of the Buffalo Hills diamondiferous property in central Alberta.

Gross exploration expenditures in the first half 2010 on the Company's properties were \$995,058, before cost recoveries of \$575,774 from joint venture partners. Expenditures on the Buffalo Hills project accounted for approximately 87% of the gross exploration expenditures in the period. From an activities standpoint, expenditures for drilling and land tenure expenses accounted for approximately 68% and 14%, respectively of the total gross exploration expenditures in the quarter, followed by expenditures on environmental and safety activities (9%). This last expense category reflects the costs associated with the decommissioning of the King property camp and related site clean-up costs.

The Company's accounting policies are to defer (i.e., capitalize) the expenditures incurred in exploring its mineral properties.

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*(formerly Diamondex Resources Ltd.)*

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

For the three- and six-months ended June 30, 2010

The MD&A for the twelve months ended December 31, 2009, a copy of which is filed under the Company's profile on the SEDAR website, includes a description of the Company's principal mineral properties. With the exception of the text relating to the Buffalo Hills project, the status of the principal properties is essentially as described in the December 31, 2009 MD&A and should be referred to by persons seeking current information on those properties.

#### ***Buffalo Hills Property***

- 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
- Seventy two Metallic and Industrial Mineral Permits and two Metallic and Industrial Mineral Leases that together cover 940,822 acres as well as five Exploration Permits within the Loon River First Nations Reservation that protect 3,343 acres
- 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
- Cumulatively, \$3,314,435 of expenditures were incurred by the Company through June 30, 2010, including \$286,146 (net) during the first half 2010

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 agreed to by Ashton Diamonds and 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 joint venture. 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 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 have been transferred to Shore Gold's core logging facility in Saskatoon for geological analysis. The geological examination of the cores will be 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. Geologic modeling is expected to be completed during the third quarter 2010.

#### ***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, exploring these properties will require a significant investment of technical and financial resources. Given the present lack of interest

## **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 six-months ended June 30, 2010

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.

Notwithstanding the present lack of interest by investors in the junior exploration sector, 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 UxC 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<sub>3</sub>O<sub>8</sub> ("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.

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 UxC Consulting, rose from its all-time low of approximately US\$7.00 per pound of U<sub>3</sub>O<sub>8</sub> in late 2000 to a record high of \$136 per pound in June, 2007. The spot price has since declined, trading between \$40-\$55 since October 2008, with a current price, as of August 2, 2010, of \$46.00 per pound of U<sub>3</sub>O<sub>8</sub>.

### **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. The Company has no producing properties, and consequently no sales or revenues.

#### **For the three months ended June 30, 2010**

In the period, the Company recorded a loss of \$413,557 (2009 - \$275,748).

Expenses in the current three month period amounted to \$415,210 (2009 - \$277,031). The increase in expenses is largely attributable to stock-based compensation expense of \$150,150 (2009 - \$Nil) associated with the vesting of 947,500 options granted during the second quarter 2010 (2009 - Nil) as well as increases in wages and benefits (\$83,621 versus \$64,952 in the 2009 period), office and miscellaneous expense (\$29,256 versus \$12,212 in the 2009 period) and legal, audit and accounting fees (\$28,786 versus \$19,773 in the 2009 period). Wages and benefits increased because the limited amount of field work in the second quarter 2010 meant that a greater percentage of wages and benefits for technical personnel were recorded in operations, rather than being charged to the Company's exploration projects as a deferred exploration expense. The increases were partially offset by a substantial increase in expense recovery (\$76,904 versus a recovery of \$4,186 in the 2009 period) for services Canterra provided to other companies.

#### **For the six months ended June 30, 2010**

In the period, the Company recorded a loss of \$710,590 (2009 - \$617,590).

Expenses in the current six month period amounted to \$736,292 (2009 - \$623,935). The increase in expenses is largely attributable to stock-based compensation expense of \$150,150 (2009 - \$Nil) associated with the vesting of 947,500 options granted during the second quarter 2010 (2009 - Nil) as well as increases in wages and benefits (\$192,908 versus \$151,962 in the 2009 period), office and miscellaneous expense (\$67,067 versus \$29,005 in the 2009 period), regulatory and transfer agent fees (\$25,176 versus \$11,084 in the 2009 period) and business development (\$41,500 versus \$33,224 in the 2009 period). Wages and benefits increased because the limited amount of field work in the first half 2010 meant that a greater percentage of wages and benefits for technical personnel were recorded in operations, rather than being charged

## 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 six-months ended June 30, 2010

to the Company's exploration projects as a deferred exploration expense. The increases were partially offset by a substantial increase in expense recovery (\$150,621 versus a recovery of \$25,607 in the 2009 period) for services Canterra provided to other companies and by a reduction in legal, audit and accounting fees (\$48,690 versus \$62,839 in the 2009 period).

Interest income in the current six month period at \$25,702 was substantially higher than the \$6,511 recorded in the comparable period, the result of higher cash balances in the current period.

No deferred exploration costs were written off in the first half 2010. In the comparable period, \$166 of such costs were written off.

#### 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 June 30	2010 Mar. 31	2009 Dec. 31	2009 Sep. 30	2009 June 30	2009 Mar. 31	2008 Dec. 31	2008 Sep. 30
a)	Net sales or total revenue	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil
b)	Income (loss) from continuing operations:								
	(i) in total (000s)	\$(414)	\$(297)	\$(999)	\$(277)	\$(276)	\$(342)	\$(8,423)	\$1,752
	(ii) per share <sup>(1)</sup>	\$(0.01)	\$(0.01)	\$(0.05)	\$(0.01)	\$(0.01)	\$(0.02)	\$(0.48)	\$0.10
c)	Net income (loss):								
	(i) in total (000s)	\$(414)	\$(297)	\$(999)	\$(277)	\$(276)	\$(342)	\$(8,423)	\$1,752
	(ii) per share <sup>(1)</sup>	\$(0.01)	\$(0.01)	\$(0.05)	\$(0.01)	\$(0.01)	\$(0.02)	\$(0.48)	\$0.10

(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 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.

The loss of \$8,422,758 in the fourth quarter of 2008 was largely due to the write-off of \$8,173,958 of deferred exploration costs and \$418,912 of mineral property acquisition costs in that quarter.

The \$1,752,000 of net income generated in the third quarter of 2008 was due largely to the gain on the sale of a 10% undivided interest in the Nickel Bay property, augmented by a significant increase in expenses recovered from third parties for services provided by Canterra and generally lower expenses as a result of the savings achieved in the quarter as a result of implementing the cost containment program earlier in the year.

#### Financing Activities

The Company did not complete any equity financings in the first half 2010 and 2009.

## **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 six-months ended June 30, 2010

#### **Investing Activities**

During the first half 2010, the Company incurred \$995,058 in gross deferred exploration costs, with cash exploration expenditures in the period of \$1,001,044 (2009 - \$1,999,597) and recovered \$575,774 (2009 - \$105,875) from partners for exploration expenditures incurred by the Company as operator of joint venture properties.

Refunds of exploration deposits received in the first half 2010 amounted to \$142,194 (2009 - \$444,528). 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 2010, the Company entered into the following transactions with related parties:

- a) Paid or accrued \$8,067 (2009 - \$8,745) 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 \$19,584 (2009 - \$18,750) for geological consulting fees included in deferred exploration costs to Rand.
- c) Paid or accrued \$110,976 (2009 - \$108,750) for management fees to Rand.
- d) Paid or accrued \$8,278 (2009 - \$6,104) 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 June 30, 2010 included \$71,147 (2009 - \$667) due from Silver Quest Resources and Galena International Resources, companies with common directors. Accounts payable and accrued liabilities at the same date included \$36,377 (2009 - \$410,422) due to companies (Rand and Adera) 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 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 \$1,969,861 at June 30, 2010 (\$2,773,192 at December 31, 2009). During the first half 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 exploration activities funded by the Company.

Although the Company's working capital position should be adequate to fund its operations during 2010, additional funds will be needed to finance any significant exploration of the Company's properties. Such financing could take the form of a 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.

## **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 six-months ended June 30, 2010

#### **Financial Instruments**

The Company's financial instruments consist of cash, receivables, prepaid expenses, exploration deposits and accounts payable and accrued liabilities. 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. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.

#### **CHANGES IN ACCOUNTING POLICIES**

Effective January 1, 2009, the Company adopted new accounting policies of the Canadian Institute of Chartered Accountants ("CICA") under the CICA Handbook sections as follows:

##### *Goodwill and Intangible Assets*

The Canadian Accounting Standards Board ("AcSB") issued CICA Handbook Section 3064 which replaces Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*. The new standard establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets, including those developed internally. At the same time, the AcSB amended Section 1000, *Financial Statement Concepts*, to clarify the criteria for recognition of an asset. Items that no longer meet the definition of an asset are no longer recognized with assets.

The adoption of Section 3064 had no impact on the Company's consolidated financial statements.

##### *Financial Instruments - Disclosures*

CICA Handbook Section 3862, *Financial Instruments – Disclosures* was amended to require disclosure about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

#### **Recent Accounting Pronouncements**

##### *International Financial Reporting Standards (IFRS)*

In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010.

While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

##### *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.

## **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 six-months ended June 30, 2010

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

On the Report Date, the Company had 35,657,743 shares outstanding, or 38,124,993 shares on a fully diluted basis. The Company has 2,467,250 options outstanding with expiry dates ranging from February 2, 2011 through April 14, 2015, with exercise prices ranging from \$0.25 to \$7.50.

#### **OUTLOOK**

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

Many companies active in mineral exploration that rely upon the equities markets to fund their ongoing exploration activities and operating expenses encountered considerable difficulty in completing placements on acceptable terms during the first half of 2009 as a result of the collapse of the US sub-prime housing market, and the fear that swept through the financial community following the collapse of Lehman Brothers and the credit markets. More recently, the strong price performance of the stock markets and precious and base metals has restored investor confidence to the extent that good projects can obtain equity financing on reasonable terms. However, investor interest in companies exploring for diamonds and uranium remains lackluster and there are concerns the credit markets could "freeze" again if measures to address the debt and deficit problems of a number of European countries are not put into place.

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.

##### **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 the Company will restrict 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 blocked access to airstrips at the beginning of the 2010 exploration field season, severely disrupting the work plans and schedules for a number of companies attempting to undertake seasonal exploration activities in the "Ring of Fire" in early 2010, which is the optimum period during which exploration programs can be carried out in the James Bay Lowlands, as the swamps and muskeg are frozen, which allows relatively unhindered access by heavy equipment to drill pad locations. The actions of these groups did not have a significant impact on the Company, as it had not implemented its planned activities for field work in the first half of 2010. 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.



## **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 six-months ended June 30, 2010

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. In the case of the Company's activities, these effects are likely to pose both challenges and opportunities. 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. On the other hand, a longer ice-free shipping season on the Arctic Ocean would facilitate the transport of fuel, other supplies and equipment to the Brodeur project on Baffin Island.

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.

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

In February 2008, the 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

## **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 six-months ended June 30, 2010

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 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.

#### **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.