TERRACE ENERGY CORP
(Formerly Terrace Resources Inc.)
(the "Company")
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF THE COMPANY'S FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE THREE MONTHS ENDED APRIL 30, 2011

Date and Subject of this Discussion and Analysis

This discussion and analysis, made as of June 28, 2011, is integral to, and should be read in conjunction with, the Company's unaudited condensed financial statements for the three months ended April 30, 2011, the audited financial statements for year ended January 31, 2011 and the Company's Filing Statement dated June 1, 2011. These financial statements, and additional information relating to the Company, are available for viewing at www.sedar.com.

Description of Business

The principal business of the Company was to identify, evaluate and then acquire an interest in a business or assets. The Company was classified as a Capital Pool Company ("CPC") as defined in TSX Venture Exchange (the "Exchange") Policy 2.4.

On June 2, 2009 the Company completed a business combination whereby four other CPCs purchased common shares of the Company and distributed them to their respective shareholders upon dissolution (the "Business Combination"). The terms of the Business Combination, as approved by the Exchange, provided among other things that the Company be given twenty-four months to complete a Qualifying Transaction ("QT") as that term is defined by the Exchange.

On June 13, 2011 the Company announced that all conditions under a farm out agreement by and between the Company's wholly-owned subsidiary, Terrace Operating, LLC and Eagle Energy Development Company had been removed or waived and work over operations on the Patos Gas #1 well were expected to commence within 60 days. Terrace is entitled to earn up to an 87.5% working interest and 65.1875% net revenue interest in certain oil gas leases referred to as the "Los Patos Gas Unit" in the Tailfeathers Yegua field in Wharton County Texas, by successfully fracture-stimulating an existing well. (See "Asset Acquisition")

The transaction constituted the Company's QT. The Company is now a Tier 2 Oil and Gas issuer and it's shares have re-commenced trading under the symbol "TZR".

Results of Operations

The loss for the three months ended April 30, 2011 was $150,684, net of interest income of $ 25,759 and foreign exchange loss of $198 as compared to a loss of $24,760, net of interest income of $999 for the three months ended April 30, 2010. A breakdown of expenses for the three month periods are as follows:

	Three months ended April 30, 2011	Three months ended April 30, 2010
Business investigation costs	$ 26,810	$ 1,889
Professional fees	103,024	15,866
Transfer agent and filing fees	20,710	7,927
Bank charges	140	77
	$ 150,684	$ 25,759

The losses for the three months ended April 30, 2011 and 2010 were primarily the result of professional and business investigation costs in connection with the investigation and due diligence of prospective qualifying transactions, including the agreement to acquire an interest in the Los Patos Gas Unit. (See "Asset Acquisition")

Summary of Quarterly Results

The results of the Company's most recent eight quarters are set out below:

	April 30 2011	January 31 2011	October 31 2010	July 31 2010	April 30 2010	January 31 2010	October 31 2009	July 31 2009
Net income (loss) for the Period	$(145,087)	$ (14,429)	$ 4,026	$ (26,046)	$(24,760)	$(6,140)	$(9,816)	$(8,216)
Loss per share	$ (0.00)	$ (0.00)	$ 0.00	$ (0.01)	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)

Fluctuations in reported earnings during the years are primarily due to changes in stock-based compensation, professional fees and business investigation costs. There was no impact on quarterly results transitioning from Canadian Generally Accepted Accounting Principles to International Financial Reporting Standards ("IFRS").

Asset Acquisition

The Company completed the farm out agreement between the Company's wholly-owned subsidiary, Terrace Operating, LLC and Eagle Energy Development Company and work over operations on the Patos Gas Unit #1 well are expected to commence within 60 days. Terrace is entitled to earn up to an 87.5% working interest and 65.1875% net revenue interest in certain oil gas leases referred to as the "Los Patos Gas Unit" in the Tailfeathers Yegua field in Wharton County Texas, by successfully fracture-stimulating an existing well

The Los Patos Gas Unit is located in Wharton County, Texas, approximately 60 miles south of Houston, Texas. The Los Patos Unit is a 320 acre proration unit situated in a prolific overpressured Yegua system which is interpreted as an elongated barrier bar system running parallel to the Texas Gulf Coast. The objective sand interval is within the lower Yegua Formation of the Claiborne Group in the Eocene Series. The Los Patos Gas Unit is within the Tailfeathers Yegua Field. The target reservoir is part of a generally strike-oriented depositional system on the Yegua shelf, updip from major Yegua expansion faulting. The fields in this mid-dip trend are usually purely stratigraphic traps and are part of a sand system that is normally less than one mile wide and extends fifteen miles across Wharton County.

The Patos Gas #1 well was drilled in 2004 by Eagle Development and encountered 17 feet of quality reservoir in a 19 foot interval, with cores showing the entire interval productive. Initial bottom hole pressure measurements well indicate that this well is not in pressure communication with the previous wells in the anomaly. The petro physical results are similar to those found in the development of Porter's Creek Field. Both the Tailfeathers Yegua Field and Porter's Creek Field had relatively thick sands with high porosity that had limited initial drainage. Eagle Development attempted to complete the Patos Gas #1 well by fracture stimulation. The stimulation treatment screened out prematurely due to a faulty completion design. No attempt was made to re-stimulate the well. Despite the failed completion, the well was placed on production. The well is reported to have produced 130 mmcfpd to date and to be currently intermittently producing +/- 150 mcfpd. Terrace engaged an industry expert to review the previous completion design and recommend a different design which is expected to have a greater probability of success.

The Company estimates that it will cost approximately US$300,000 to fracture-stimulate the Patos Gas #1 well and US$ 1.5 million to drill and complete one additional well. The Company will review the results of the work over program before deciding to drill and complete any additional wells.

A more complete description of the Company's principal asset is contained in the Company's Filing Statement dated June 1, 2011 and the report on reserve data, prepared by H.J. Gruy and Associates, Inc. attached thereto, which is available for viewing at www.sedar.com.

Financial Condition, Liquidity and Capital Resources

As at April 30, 2011, the Company had cash resources of $95,869 and working capital of $51,098.

In connection with the Business Combination, the Company had placed $2,500,000 into a segregated interest bearing account, which could not be accessed without Exchange approval. The Exchange approved the release of these funds upon completion of the QT. They are now available for general working capital purposes.

In June 2011, the Company completed a placement of 10 million units at $0.09 per unit for additional gross proceeds of $900.000. The proceeds of the private placement will be used together with the Company's existing working capital and previously restricted cash to fund the development of the Los Patos Gas Unit and for general working capital purposes.

Off Balance Sheet Arrangements

There are no off-balance sheet arrangements to which the Company is committed.

Critical Risk Factors

The exploration and development of oil and gas involves certain significant risks not within the control of management. Critical risks factors affecting the prospects of the Company include, but not limited to, the following:

Finance Risk

The Company is an exploration stage company now engaged in the exploration of oil and gas, and is not in production. As a consequence, the Company does not generate cash flow from operations and it is not assured that it will generate cash flow from operations in the near future. Continuing operations are, therefore, dependent upon the Company's ability to secure additional capital as required, which is also not assured.

Property Title Risk

Title to oil and gas lease properties involve certain inherent risks due to the difficulties of determining the validity of certain claims, as well as the potential for problems arising from the ambiguous conveyancing history that is characteristic of many oil and gas properties. The Company has investigated title to all of its properties, and, to the best of its knowledge these titles are properly registered and in good standing.

Economic Risk

The commercial viability of any oil and gas resource depends on many factors, including its size, existence of economically recoverable reserves and proximity to infrastructure. Government regulation, taxes, royalties, land tenure, land use, environmental protection and reclamation and closure obligations also affect the economic viability of a particular oil and gas resource.

Currency Risk

The Company's principal asset is located in the United States. As at the date of this report, all of the Company's cash was held in Canadian dollars and was therefore subject to fluctuation against the United States dollar. Based on the balances as at the date of this report, if the U.S. dollar had weakened (strengthened) against the Canadian dollar, with all other variables held constant, by 1%, net loss would have increased (decreased) by approximately $35,250. There would be no effect on other comprehensive loss. The Company does not use derivatives or similar instruments to manage currency risk.

Financial Instruments

The Company's financial instruments consist primarily of cash and accounts payables 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 approximates their carrying value, unless otherwise noted.

Accounting Changes

Basis of presentation

These are the Company's first IFRS condensed interim financial statements for the first quarter of the period covered by the first IFRS annual financial statements to be presented in accordance with IFRS for the year ending January 31, 2011 and IFRS 1 First-Time Adoption of IFRS has been applied. The impact of the transition from Canadian Generally Accepted Accounting Principles (GAAP) to IFRS is explained in Transition to IFRS below.

These condensed interim financial statements have been prepared on a historical cost basis using the accrual basis of accounting, except for cash flow information.

These condensed interim financial statements were prepared in accordance with International Accounting Standard *34 Interim Financial Reporting*. They do not include all of the information required for full annual financial statements.

The accounting policies set out below have been applied consistently to all the periods presented in preparing the opening balance sheet at February 1, 2010 for purposes of transition to IFRS.

Transition To IFRS

These are the Company's first condensed interim financial statements for the period covered by the first annual financial statements prepared in accordance with IFRS. There are no differences between Canadian GAAP and IFRS that are applicable to the measurement of the Company's assets and liabilities (i) at the transition date of February 1, 2010; (ii) at January 31, 2011; and (iii) at April 30, 2011. There is no impact on net loss and comprehensive loss for any period presented. Further, there has been no application of any of the exceptions available under IFRS 1 - First Time Adoption of IFRS.

Use of judgments and estimates

The preparation of financial statements requires management to make estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed financial statements and the reported amounts of revenues and expenses during the reported period.

Subsidiary Company

The Company's wholly owned subsidiary, Terrace Operating LLC, was incorporated to acquire the Company's principal asset. It was not in operation at the reporting date and therefor its accounts were not consolidated.

Additional Information

Securities issued during the period

No securities were issued during the three months ended April 30, 2011.

Securities issued at the end of the period

The Company had 30,881,821common shares issued and outstanding as at April 30, 2011 and 40,881,821 common shares as at the date of this report.

Securities issued subsequent to the end of the period

Subsequent to this reporting date the Company issued:

10,000,000 common shares for proceeds of $900,000.
10,000,000 share purchase warrants exercisable at $0.18 each, expiring June 21, 2016; and
1,950,000 incentive stock options exercisable at $0.12 each, expiring June 21, 2016

Directors and Officers

Eric Boehnke	Director and C.E.O.
David Gibbs	Director
Murray Oliver	Director
William McCartney	Director
Jennie Choboter	CFO
Paul Visosky	Secretary

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