

TERRACE RESOURCES INC.
(the “Company”)
MANAGEMENT’S DISCUSSION AND ANALYSIS
OF THE COMPANY’S FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE YEAR ENDED JANUARY 31, 2011

Date and Subject of this Discussion and Analysis

This discussion and analysis, made as of April 6, 2011, is integral to, and should be read in conjunction with, the Company’s audited financial statements for year ended January 31, 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 is to identify, evaluate and then acquire an interest in a business or assets. The Company is classified as a Capital Pool Company (“CPC”) as defined in TSX Venture Exchange (“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 combination, as approved by the Exchange, provided among other things that the Company had until June 12, 2011 to complete a Qualifying Transaction (“QT”) as that term is defined by the Exchange.

The Company does not have active business operations or assets other than cash. On February 4, 2011, the Company announced that it entered into a letter of intent to acquire an 87.5% working interest and 65.2% net revenue interest in certain oil and gas leases from Eagle Energy and Development Company, a private company incorporated in Texas. The acquisition, if completed, will constitute the Company’s QT under the policies of the Exchange. See Proposed Qualifying Transaction and Financing.

Proposed Qualifying Transaction and Financing

On January 31, 2011, the Company entered into a letter of intent to acquire certain oil and gas leases located within a 320 acre parcel located in Wharton County, Texas (the “Los Patos Gas Unit”) subject to, among other things, Exchange approval. The transaction, if completed, will constitute the Company’s QT. On March 30, 2011, the letter of intent was replaced by a definitive farm-out agreement which contains the following material terms and conditions:

1. the Company, through a wholly-owned subsidiary, has the right to acquire a 87.5% working interest and a 65.2% net revenue interest after payout in the Los Patos Gas Unit by paying 100% of all costs associated with the re-entry and successful fracture stimulation of an identified existing well (the “Workover Well”), which are estimated to be approximately US\$303,000, or a substitute well;
2. the Company’s wholly-owned subsidiary will be named as operator;
3. the Company will earn a 74.5% net revenue interest in the Workover Well before payout of capital costs and a 65.2 % net revenue interest after payout;

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4. in the event the Workover Well does not result in a commercially productive well, the Company will be responsible for all costs to plug and abandon, which are estimated to be US\$20,000, and may, at its option, drill a substitute well at an estimated cost of US\$1,500,000 to earn a 87.5% working interest and a 65.2% net revenue interest in the Los Patos Gas Unit; and
5. the Agreement is subject to Exchange approval and the receipt of a satisfactory report in Form 51-101, a draft of which has been filed with the Exchange for comment.

On February 4, 2011, the Company announced a non-brokered private placement of 10,000,000 Units at \$0.09 each. Each Unit would consist of one common share of the Company and one warrant entitling the holder to purchase one additional common share of the Company at \$0.18 for a period of five years. The completion of the private placement is also subject to Exchange acceptance and approval and is not a condition of the QT. There can be no assurance it will be completed on the terms proposed or on any terms.

Selected Annual Information

The following financial represents selected information of the company for the three most recently completed financial years:

	Year ended January 31 <u>2011</u>	Year ended January 31 <u>2010</u>	Year ended January 31, <u>2009</u>
Net loss for the year	\$ (61,209)	\$ (33,963)	\$ (105,925)
Basic and diluted los per share	\$ (0.00)	\$ (0.00)	\$ (0.02)
Total assets	\$ 2,744,704	\$ 2,793,058	\$ 1,122,522
Total long-term liabilities	\$ -	\$ -	\$ -
Cash dividends per share	\$ -	\$ -	\$ -

The losses for the years ended January 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. The losses for the year ended January 31, 2009 were primarily the result of professional, transfer agent and Exchange filing fees incurred in connection with the Business Combination.

Results of Operations

The loss for the year ended January 31, 2011 was \$61,209, net of interest income of \$ 21,509, as compared to a loss of \$33,963, net of interest income of \$2,262, for the year ended January 31, 2010. The primary difference in expenses relates to an increase in professional fees and business investigation costs. A breakdown of expenses for the years are as follows:

	Year ended <u>January 31, 2011</u>	Year ended <u>January 31, 2010</u>
Business investigation costs	\$ 14,828	\$ 3,753
Professional fees	44,362	18,739
Transfer agent and filing fees	17,966	13,457
Administration	5,325	-
Bank charges	<u>237</u>	<u>276</u>
	<u>\$ 82,718</u>	<u>\$ 36,225</u>

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Fourth Quarter

The loss for the three months ended January 31, 2011 was \$14,429, net of interest income of \$5,596, as compared to a loss of \$6,140, net of interest income of \$2,262, for the three months ended January 31, 2010. Expenses for the three month periods are as follows:

	<u>Three months ended</u> <u>January 31, 2011</u>	<u>Three months ended</u> <u>January 31, 2010</u>
Professional fees	\$ 3,788	\$ 2,345
Transfer agent and filing fees	1,327	678
Business investigation costs	8,845	3,753
Administration	<u>6,065</u>	<u>1,626</u>
	<u>\$ 20,025</u>	<u>\$ 8,402</u>

Summary of Quarterly Results

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

	<u>January 31</u> <u>2011</u>	<u>October 31</u> <u>2010</u>	<u>July 31</u> <u>2010</u>	<u>April 30</u> <u>2010</u>	<u>January 31</u> <u>2010</u>	<u>October 31</u> <u>2009</u>	<u>July 31</u> <u>2009</u>	<u>April 30</u> <u>2009</u>
Net income (loss) for the Period	\$ (14,429)	\$ 4,026	\$ (26,046)	\$(24,760)	\$(6,140)	\$(9,816)	\$(8,216)	\$(9,791)
Loss per share	\$ (0.00)	\$ 0.00	\$ (0.01)	\$ (0.00)	\$ (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.

Financial Condition, Liquidity and Capital Resources

As at January 31, 2011, the Company had cash resources of \$219,701 and working capital of \$201,980.

In connection with the Business Combination, the Company placed \$2,500,000 into a segregated account. Such funds, together with accrued interest, may not be used for general working capital or other purposes prior to the completion of a Qualifying Transaction without Exchange approval. If the Company does not complete a Qualifying Transaction by June 12, 2011, the Company will be dissolved and the restricted cash, at that particular time, will be distributed to shareholders of the Company, excluding those shareholders whose shares are held in escrow, unless shareholders vote in favour of an alternative plan.

Off Balance Sheet Arrangements

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

Critical Risk Factors

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The Company has no active business or assets other than cash. It does not have a history of earnings, nor has it paid any dividends and will not generate earnings or pay dividends until at least after the completion of a qualifying transaction.

There can be no assurance that the Company's proposed QT and non-brokered private placement of Company securities will be completed on the terms and conditions disclosed herein or on any terms.

The Company has only limited funds with which to identify and evaluate other possible alternative qualifying transactions should the proposed QT not be completed. Furthermore, there can be no assurance that the Company will be able to identify and complete an alternative qualifying transaction on or before June 12, 2011. If a qualifying transaction is not successfully completed by such date, the common shares of the Company may be delisted from trading on the Exchange.

Financial Instruments

The Company's financial instruments consist of cash, restricted 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.

Future Accounting Policies

International Financial Reporting Standards ("IFRS")

In 2008, the Canadian Accounting Standards Board confirmed that the transition to IFRS from Canadian GAAP will be effective for fiscal years beginning on or after January 1, 2011 for publicly accountable enterprises. The Company will therefore be required to present IFRS financial statements for its April 30, 2011 interim financial statements. The effective date will require the restatement for comparative purposes of amounts reported by the Company for the interim periods and for the year ended January 31, 2011 and earlier where applicable. The Company has determined that the adoption of IFRS will not have a material effect on the Company's financial reporting.

Business Combinations, Non-Controlling Interests and Consolidated Financial Statements

In January 2009, the CICA issued Handbook Sections 1582, "Business Combinations", 1601, "Consolidated Financial Statements", and 1602, "Non-Controlling Interests", which replace 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 1582 is applicable for business combinations with acquisition dates on or after January 1, 2011. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. These sections are applicable to the Company's interim and annual consolidated financial statements for its fiscal year beginning on or after February 1, 2011. Early adoption of this section is permitted and all three sections must be adopted concurrently.

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Additional Information

Securities issued during the period

No securities were issued during the year ended January 31, 2011.

Securities issued at the end of the period

As at January 31, 2011 and the date of this report, the Company had 30,881,821 common shares issued and outstanding.

In addition, the Company had no outstanding options or agent warrants to purchase common shares of the Company.

Directors and Officers

William McCartney	Director, C.E.O. and C.F.O
Murray Oliver	Director
David Boehm	Director
Paul Visosky	Secretary

Contact Person

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