

18 October 2012

Dear Option holder

**Exterra Resources Limited Non-Renounceable Rights Issue
Notice to Option holders**

On 18 October 2012 Exterra Resources Limited (**Company**) announced that the Company will be conducting a pro-rata non-renounceable rights issue to shareholders of up to approximately 83,581,566 fully paid ordinary shares in the capital of the Company (**Shares**) on the basis of 1 new Share for every 1 Share held at 5.00 pm (WST) on 29 October 2012 (**Record Date**), at an issue price of \$0.028 per Share to raise up to approximately \$2,340,000 before expenses (**Rights Issue** or **Offer**).

The Rights Issue is available to shareholders of the Company registered on the Record Date and who reside in Australia or New Zealand.

Therefore an option holder who is resident outside of Australia and New Zealand may not be able to participate in the Rights Issue upon exercise of their options, depending on the securities laws of their country of residence and their individual circumstances.

The Rights Issue is being made pursuant to a prospectus which was lodged with ASIC on 18 October 2012 (**Prospectus**). The Prospectus is available on the Company's website at www.exterraresources.com.au or on the ASX website.

Under the terms of the options you currently hold, there is no entitlement to participate in the Rights Issue unless you exercise your options and are entered onto the register as a shareholder on or before 5.00 pm (WST) on the Record Date.

You will need to confirm that your options are currently exercisable under the terms before you can participate in the Rights Issue.

To exercise your options and thereby participate in the Rights Issue (in respect of your options) you will need to deliver to the registered office of the Company the following:

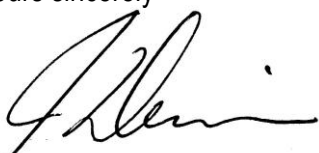
1. completed application form to exercise options specifying the number of options to be exercised (**Option Exercise Notice**);
2. your option certificate covering that number of options; and
3. payment for the exercise price for those options by way of a cheque made payable to the Company.

Each Share allotted as a result of the exercise of an option will rank equally with all other issued Shares of the Company.

Option Exercise Notices and cleared funds must be received by no later than 5.00 p.m. (WST) on 29 October 2012.

If you do not wish to participate in the Rights Issue (in respect of your options), you do not need to take any action.

Yours sincerely



John Davis
Managing Director
EXTERRA RESOURCES LIMITED