**X-TERRA RESOURCES CORPORATION**
**(the “Company” or “X-Terra”)**

**MANAGEMENT DISCUSSION AND ANALYSIS**
**(“MD&A”)**

**FOR THE THREE-MONTH PERIOD ENDED JUNE 30, 2010**
**(the “Period”)**

The Company prepares its financial statements in accordance with Canadian generally accepted auditing principles (“GAAP”). The following management’s analysis of X-Terra’s operating results and financial position should be read in conjunction with the Company’s unaudited consolidated interim financial statements for the three-month period ended June 30, 2010 and the Company’s audited consolidated financial statements for the year ended December 31, 2009 and the related notes. Unless otherwise indicated, all amounts in this MD&A are in Canadian dollars. Management is responsible for the preparation of the consolidated financial statements and other financial information relating to the Company included in this report.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting. In furtherance of the foregoing, the Board has appointed an Audit Committee composed of three directors, who are independent and not members of management. The Committee meets with management in order to discuss results of operations and the financial condition of the Company prior to making recommendations and submitting the financial statements to the Board of Directors for its consideration and approval for issuance to shareholders. On the recommendation of the Audit Committee, the Board of Directors has approved the Company’s financial statements.

## DATE

This MD&A is prepared as at August 27, 2010.

## OVERALL PERFORMANCE

### Description of Business

X-Terra, an exploration stage company, is in the business of acquiring, exploring and developing mining and energy properties. It has interests in properties at the exploration stage located in Canada. The Company is in the process of exploring its mining property interests and has not yet determined whether they contain mineral deposits that are economically recoverable.

The Company capitalizes property acquisition and exploration expenditures relating to mineral and oil and gas properties in which it has an active interest. In the event that such properties become inactive or prove uneconomic, they are written-off. Any reference in this document to “properties” means any mineral resources and oil and gas properties in which the Company has earned or in the future may earn an interest.

The Company is a reporting issuer in British Columbia, Alberta, Manitoba and Ontario and is traded on the TSX Venture Exchange (“TSX-V”), under the symbol XT. It also trades on the Frankfurt, Munich and Berlin Exchanges in Europe under the symbol DFUA.

A total of 5,543 km airborne magnetic survey on the Rimouski, Rimouski North and Shawinigan projects in the St-Laurent Lowlands was also recently completed. The survey is composed of 5,543 km of 300 metre-spacing flight lines and 3,000 metre-spacing control lines and was completed by Geophysics GPR International - KalusAir Services Inc (KASI). The magnetic survey maps will be used to outline the structural and lithological geology and aid in further exploration. Please refer to X-Terra and Brownstone’s websites to view a surface plan showing the location of the survey. Also, a total of three diamond drill holes totalling 358 metres were drilled on the Lindsay property located in the Temiscamingue area.

## PROPERTIES

### 1. Mining Properties

**Lindsay Property (25 claims)**

The 100% owned Lindsay gold-uranium-rare earth elements project is located approximately 125 kilometres south of Rouyn-Noranda, Quebec and 70 kilometres east-northeast of North Bay, Ontario, along the provincial border, halfway between the Elliot Lake uranium camp and the Abitibi gold belt, within the Grenville front. The project consists of 25 unpatented mining claims (1,534 hectares) in Villedieu Township. The Lindsay project is an early stage exploration project with historical uranium and rare-earth-elements occurrences and economic potential for these commodities.

The property is underlaid by gneiss derived from a mature sequence of detrital and chemical metasedimentary rocks called the Kipawa formation that has been metamorphosed to upper amphibolite facies (Rive 1973b). The Kipawa alkaline intrusive complex is situated immediately north of the property and this plutonic mass could extend to the south of the property. The composition and texture of the complex is heterogeneous. Three principal internal units are present: a syenitic-monzonite facies; a banded mafic gneiss facies; and a peralkaline granite facies. The discovery of uranium and gold mineralization at Hunter's Point in 1957 increased uranium exploration in the Kipawa region. Since then, several mining companies have sporadically undertaken exploration work in the region. The increased price of uranium over the last several years (presently around $46US/pound; http:www.uxc.com/review/uxc_prices.aspx) has reinvigorated interest in uranium exploration in this region. Many companies are currently active in this sector. More recently, many mining companies have undertaken major exploration work in the region. The gold producer, Aurizon Mines Ltd.(TSX:ARZ), has carried out a magnetic, electromagnetic and airborne radiometric survey, covering a vast territory of this sector. In addition, a till sampling survey was conducted by Aurizon Mines in the regions considered most favourable for gold mineralization. This survey has defined four trends of gold dispersion utilizing the analysis of heavy mineral concentrates. The northeast dispersion trend of gold in heavy mineral concentrate is located immediately to the northwest of the property and is evident along the length of a major geological structure in a northwest direction that covers the property at its centre. The heavy mineral concentrates have yielded analyses of more than 0.1 g/t of gold in 27% of samples, including analyses of 1.3 g/t and 2.0 g/t of gold. In February 2009, Aurizon reports encouraging rare earth results, they drilled 104 metres of 0.063% REE+Y north of the Lindsay property. The company spent $151,887 in exploration work on this property during the first two quarters of 2010. The drilling campaign on the Lindsay property has been completed. A total of three diamond drill holes totalling 358 metres were planned on the Lindsay property. More than 110 samples were sent to a lab for assaying; however, no economic results were obtained from this drilling campaign. The maps are available on the Company's website at www.xterraresources.com.

**Cool Lake Property (40 claims)**

No significant expenses have been spent on the Cool Lake property during the first two quarters of 2010. This 100% owned project area occurs within sedimentary and granitoid-dominated parts of the Pontiac subprovince in the eastern Superior Province of the Canadian Shield. Approximately 15-20 km south-southwest of the project area, a large Archean supracrustal belt, the Belleterre-Anglier greenstone belt (BAG) also occurs within the Pontiac subprovince. The BAG is the most southerly greenstone belt in the Superior Province, lying approximately 100 kilometres south of Abitibi greenstone belt of Rouyn-Noranda-Val d'Or area and immediately north of Grenville Front (Proterozoic Grenville Province). Both volcano-sedimentary and various granitoid rocks are present but volumetrically, the latter are dominant, especially in the western-half of the property. The granitic rocks, which host the uranium and other associated rare-elements, are widely distributed in this area. Granitoid rocks mainly comprise monzonite, monzodiorite, pegmatite granite, pegmatite dikes, syenite and granodiorite, in the decreasing order of abundance. The exploration program on the Cool Lake property is now completed. No target that justifies a drilling program has been identified on this property. X-Terra will not renew the exploration license for the Cool Lake property, which is located 100 km south of Rouyn-Noranda.

### 2. Shale gas properties

**Rimouski, Rimouski North and Shawinigan Properties (8 permits)**

Oil and gas exploration in Québec has been ongoing for the last 140 years. Notable gas discoveries include the Quaternary Pointe-du-Lac Gas Field, the Ordovician age St. Flavien Gas Field, and the Devonian Silurian Galt gas discovery near the town of Gaspé. Oil discoveries include the Port-au-Port oil discovery in Newfoundland and minor oil accumulation at Haldimand, near Gaspé. While the province is known to be petroliferous, the discoveries have been modest. Reservoirs can be found in the Cambrian, Ordovician, Silurian, Devonian and the Quaternary. Up until the "discovery" of the Utica Shale plays, most oil and gas accumulations in the area were conventional.

An exhaustive compilation is currently in progress and a 50/50 farm out deal has been finalized with well known oil and gas networked partner/operator named Brownstone Ventures Inc ("Brownstone"). On October 28, 2008 X-Terra entered into agreement with Brownstone pursuant to which Brownstone acquired a 50% interest in the exploration licenses in exchange for the issuance to X-Terra of 2,000,000 common shares and 2,000,000 common shares purchase warrants. X-Terra still owns theses shares and warrants.

X-Terra Resources Corp. and its partner Brownstone Ventures Inc. have made a 5,543-kilometre airborne magnetic survey on the Rimouski, Rimouski North and Shawinigan projects in the St. Laurent Lowlands, Quebec. The survey is composed of 5,543 kilometres of 300-metre-spacing flight lines and 3,000-metre-spacing control lines and was completed by Geophysics GPR International-KalusAir Services Inc. (KASI). Preliminary results from this last study suggest structural fabrics, which could generate targets on the three projects. These structural fabrics will be investigated by a geological field survey in August and September, 2010, in order to renew the licenses with good potential targets. The maps are available on the Company's website at www.xterraresources.com.

## SUMMARY QUARTERLY INFORMATION

### Summary of Quarterly Results

The following table sets forth a comparison of selected quarterly financial information for the previous eight quarters:

| Period | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 |
|---|---|---|---|---|---|---|---|---|
| Years | 2010 | 2010 | 2009 | 2009 | 2009 | 2009 | 2008 | 2008 |
| Current assets | 4,313,854 | 4,980,421 | 5,853,199 | 5,109,585 | 4,966,967 | 4,856,967 | 5,233,450 | 4,898,577 |
| Mining and oil and gas properties | 996,885 | 996,885 | 996,655 | 996,655 | 988,365 | 988,365 | 988,074 | 996,034 |
| Current liabilities | 62,689 | 78,561 | 35,482 | 74,387 | 30,796 | 45,304 | 59,180 | 215,529 |
| Shareholders' Equity | | | | | | | | |
| Share Capital | 25,440,232 | 25,440,232 | 25,440,232 | 25,440,232 | 25,440,232 | 25,703,086 | 26,191,429 | 26,413,577 |
| Deficit | (23,287,022) | (23,088,033) | (22,772,724) | (22,918,032) | (22,804,013) | (22,738,064) | (22,625,731) | (23,367,883) |
| Income (loss) for the period | (198,989) | (315,309) | 145,308 | (114,019) | (65,949) | (112,333) | 742,152 | (243,681) |
| Working capital | 4,251,165 | 4,901,860 | 5,817,717 | 5,035,198 | 4,935,731 | 4,811,663 | 5,174,270 | 4,683,048 |
| Basic and diluted income (loss) per share | (0.02) | (0.03) | 0.01 | (0.01) | (0.01) | (0.01) | 0.06 | (0.02) |

### Results of operations

During the three-month period ended June 30, 2010, the Company registered a net loss of $198,989 in comparison with a net loss of $65,949 for the same quarter in 2009. The main difference is due to the fact that for the second quarter of 2010, a stock-based compensation of $58,500 has been recorded against no amount for the second quarter in 2009. The Company has recorded, for the quarter ended June 30, 2010, interest income of $14,100 ($5,949 for the quarter ended June 30, 2009) and unrealized loss on investments of $56,000 (unrealized gain of $48,000 for the quarter ended June 30, 2009). The Company's administrative expenses for the quarter ended June 30, 2010 are at $157,089 ($119,898 for the quarter ended June 30, 2009). Professional fees have decreased from $33,988 for the quarter ended June 30, 2009 to $9,520 for the quarter ended June 30, 2010 because a bigger part of the audit fees have been recorded during the second quarter of 2009. General administrative expenses have increased and went from $73,754 for the quarter ended June 30, 2009 to $77,919 for the quarter ended June 30, 2010. The other administrative expenses for the second quarter of 2010 remained relatively stable, are cyclical and may fluctuate according to the events, which are not always predictable.

Stock-based compensation is a non-cash item, resulting from the application of the Black-Scholes option pricing model using assumptions for expected dividend yield, average risk-free interest rates, expected life of the options and expected volatility.

### Liquidity and Capital Resources

As at June 30, 2010, the Company had a working capital of $4,251,165 (December 31, 2009 - $5,817,717), which included cash and cash equivalents of $2,269,972 (December 31, 2009 - $2,609,361). The Company's liquidity ($2,269,972) with investments and marketable securities ($1,830,570) represents $0.35 per share.

As at June 30, 2010 and at the date of this report, the Company had stock options outstanding allowing for the purchase of up to 60,000 common shares at $1.10 per share until June 2012, 375,000 common shares at $1.90 per share until June 2013, 270,000 common shares at $1.00 per share until August 2013, 290,000 common shares at $0.50 per share until July, 2014 and 180,000 common shares at $0.35 per share until June 2020. The exercise of all the share purchase options represents an added potential financing of $1,256,500. At the date of this report, the exercise of 5,150,000 warrants outstanding represent a potential financing of $7,725,000. These warrants expire in February 2011 and July 2013. They have an exercise price of $1.50.

**PROJECTED OPERATIONS**

The Company does not foresee for the moment any important acquisition or disposal of property.

**OFF-BALANCE SHEET ARRANGEMENT**

X-Terra has not entered into any specialized financial agreements to minimize its investments, currency or commodity risk. There are no off balance sheets arrangements, such as a guarantee contract, contingent interest in assets transferred to an entity, derivative instruments obligations and or any obligations that trigger financing, liquidity, market or credit risk to the company.

**RELATED PARTY TRANSACTIONS**

Related party transactions occurred in the normal course of business and were recorded at the exchange values, which is the consideration determined and agreed to by the related parties. Unless indicated otherwise, the following transactions are included in general administrative expenses for the three-month periods ended June 30:

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| Leasing contract | 6,000 | 6,000 |
| Management consulting fees charged by a company controlled by a director of the Company | 18,000 | 18,000 |
| Administrative service fees charged by a company controlled by a director of the Company | 43,110 | 38,415 |
| | 67,110 | 62,415 |

* The Company has entered into a leasing agreement for an office in Rouyn-Noranda with a company controlled by directors and officers of the Company.

**GENERAL ADMINISTRATIVE EXPENSES AND PROFESSIONAL FEES**

This is the detail for general administrative expenses for the three-month periods ended June 30:

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| Bank charges | 211 | 1,914 |
| Advertising and promotion | 2,134 | 200 |
| Office operations and facilities | 6,725 | 6,901 |
| Website | 3,000 | 3,000 |
| Traveling expenses | 4,739 | 5,324 |
| Management and administrative services | 61,110 | 56,415 |
| | 77,919 | 73,754 |

This is the detail for professional fees for the three-month periods ended June 30:

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| Legal | - | 5,515 |
| Audit fees | 9,520 | 28,473 |
| | 9,520 | 33,988 |

## CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Significant areas where management judgment is applied are the useful life of assets for amortization purposes, the valuation of mining and oil and gas properties and deferred exploration expenses, valuation allowances for future income taxes and the valuation of stock-based compensation and warrants. Actual results could differ from those estimates and such differences could be material.

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

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that the use of IFRS would be required for Canadian publicly accountable enterprises for years beginning on or after January 1, 2011. Management is presently working on a changeover plan to adopt IFRS by 2011. Management will start shortly the process of assessing accounting policy choices and elections that are allowed under IFRS and will also assess the impact of the conversion on its business activities including the effect on information technology and data systems, internal controls over financial reporting and disclosure controls. X-Terra's management will continually review and adjust its changeover plan to ensure its implementation process properly addresses the key elements of the plan.

*Team:*

Due to the size of the Company, the CFO will be performing the IFRS convergence and will report to the president and to the Audit Committee on the progress accomplished.

*Training:*

The CFO was kept informed of the information disseminated regarding IFRS and he will participate to training session during the year 2010 and will be supported by experts. As IFRS is expected to change prior to 2011, any changes impacting the Company will have to be monitored.

*Accounting Policies impacted:*

The detailed analysis of the accounting policies impacted by the IFRS convergence is expected to be completed throughout 2010. Overall, a lot of effort will be put in the financial statements presentation as IFRS requires more disclosure. Based on the analysis of expected accounting differences conducted so far, following is a non-exhaustive list of the IFRS accounting policies that could have a potential impact on the financial statements of the Company:

*First Time adoption (IFRS 1)*

IFRS 1 provides guidance to entities on the general approach to be taken when first adopting IFRS. The underlying principle of IFRS 1 is retrospective application of IFRS standards in force at the date an entity first reports using IFRS. IFRS 1 acknowledges that full retrospective application may not be practical or appropriate in all situations and prescribes:

- optional exemptions from specific aspects of certain IFRS standards in the preparation of the Company's opening balance sheet; and
- mandatory exceptions to retrospective application of certain IFRS standards.

Additionally, IFRS 1 contains disclosure requirements to highlight changes made to financial statement items due to the transition to IFRS.

*Impairment (IAS 36, IFRS 6)*

IFRS requires the use of a one-step impairment test (impairment testing is performed using discounted cash flows) rather than the two-step test under Canadian GAAP (using undiscounted cash flow as a trigger to identify potential impairment loss). IFRS requires reversal of impairment losses where previous adverse circumstances have changed; this is prohibited under Canadian GAAP. Impairment testing should be performed at the asset level for long-lived assets and intangible assets. Where the recoverable amount cannot be estimated for individual assets, it should be estimated as part of a Cash Generating Unit ("CGU").

*Share-based payments (IFRS 2)*

Per IFRS, the forfeiture rate, with respect to share options, needs to be estimated by the Company at the grant date instead of recognizing the entire compensation expense and only record actual forfeitures as they occur.

*Mineral property interests, exploration and evaluation costs (IFRS 6)*

Under IFRS, the Company would be required to develop an accounting policy to specifically and consistently identify which expenditures on exploration and evaluation activities will be recorded as assets. Unlike IFRS, Canadian GAAP indicates that exploration costs may initially be capitalized if the Company considers that such costs have the characteristics of property, plant and equipment. Exploration and evaluation assets shall be classified as either tangible or intangible according to the nature of the assets acquired.

*Information systems:*
The accounting processes of the Company are simple since it is still at the exploration stage and no major challenges are expect at this point to operate the accounting system under the IFRS. Nevertheless, some excel spreadsheets will probably have to be adapted to support the change made in accounting policies. The Company has yet to establish if historical data will have to be regenerated to comply with some of the choices to be made under IFRS 1.

*Internal Controls:*
Since X-Terra is a TSX Venture issuer, management does not make representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in National 52-109. Management is responsible for ensuring that processes are in place to provide them with sufficient knowledge to support their certification of the financial statements and MD&A, more specifically assessing that the SEDAR filings are presenting fairly the results of the Company. Management will make sure that once the convergence process is completed, it can still certify its fillings.

*Impact on the business:*
The business processes of the Company are simple and no major challenges are expected at this point to operate under IFRS. The Company has no foreign currency transactions, no hedging activities, no debt and no capital obligations. The Company doesn't expect that IFRS will have an impact on the requirements or business processes when it enters in flow-through financing. The Company has no compensation arrangements that will be affected by the IFRS implementation. The Company's Stock Option Plan is not affected by ratios or financial targets. Business process will be monitored through 2010 to detect unsuspected impact.

## OTHER MD&A REQUIREMENTS

### Share capital

As at August 27, 2010, the Company had the following:
Issued and outstanding- 11,783,069 shares

**Warrants outstanding:**

| Expiry date | Number of warrants outstanding | Exercise price ($) |
|---|---|---|
| July 2013[1] | 5,000,000 | 1.50 |
| February 2011 | 150,000 | 1.50 |
| | 5,150,000 | |

(1) In June 2010, the Company has announced the extension of the expiry date of these warrants from July 11, 2010 to July 11, 2013.

**Stock options outstanding:**

| Expiry date | Number of options outstanding | Exercise price ($) |
|---|---|---|
| June 2012 | 60,000 | 1.10 |
| June 2013 | 375,000 | 1.90 |
| August 2013 | 270,000 | 1.00 |
| July 2014 | 290,000 | 0.50 |
| June 2020 | 180,000 | 0.35 |
| | 1,175,000 | |

**OTHER INFORMATION**

The Company's web address is www.xterraresources.com. Further information regarding the Company and its operations are filed electronically on the System for Electronic Document Analysis and Retrieval (SEDAR) in Canada and can be obtained from www.sedar.com.

**FORWARD-LOOKING STATEMENTS**

Certain statements in this document that are not supported by historical facts are forward-looking, which means that they are subject to risks, uncertainties and other factors that may result in actual results differing from those anticipated or implied by such forward-looking statements. There are many factors that may cause such a disparity, notably unstable metals prices, the impact of fluctuations in foreign exchange markets and interest rates, poor reserves estimates, environmental risks (more stringent regulations), unexpected geological situations, unfavorable mining conditions, political risks arising from mining in developing countries, changing regulations and government policies (laws or policies), failure to obtain required permits and approval from government authorities, or any other risk related to mining and development. Even though the Company believes that the assumptions relating to the forward-looking statements are plausible, it is unwise to rely unduly on such statements, which were only valid as of the date of this document.

August 27, 2010.

(S) Martin Dallaire
Martin Dallaire, President and Chief Executive Officer

(S) Sylvain Champagne
Sylvain Champagne, Chief Financial Officer