

X-TERRA RESOURCES CORPORATION
(formerly Canadian Empire Exploration Corp.)
(the "Company")

MANAGEMENT DISCUSSION AND ANALYSIS
(**"MD&A"**)
(**FORM 51-102F1**)

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2007
(the "Period")

The Company prepares its financial statements in accordance with accounting principles generally accepted in Canada. This MD&A should be read in conjunction with the audited Consolidated Financial Statements of the Company for the year ended December 31, 2006 and the related notes thereto. Unless otherwise indicated, all amounts in this MD&A are in Canadian dollars. The Company capitalizes property acquisition and exploration expenditures relating to mineral properties in which the Company 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 properties in which the Company has or in the future may earn an interest.

DATE

This MD&A is made as of August 24, 2007.

OVERALL PERFORMANCE

Description of Business

The Company is in the business of acquiring, exploring and developing Uranium mineral properties. At June 30, 2007, the Company has two mineral properties 100% interests. The Villedieu property has been acquired in April and the Lindsay in June 2007 but the last one has been approved and recorded only in August 2007. On May 29, 2007, the Company closed a non-brokered private placement of one million units at a price of 56 cents per unit for gross proceeds of \$560,000. The company intends to use the proceeds of the private placement for general working capital, and to finance the proposed exploration and development work on the Villedieu township. On June 2007, X-Terra proposed a non-brokered private placement of up to three million units at a price of 75 cents per unit. This financing is not closed yet. The proceeds of the private placement will also be used for general working capital, and to finance the proposed exploration and development work on the Villedieu and Lindsay properties. X-Terra Resources Corp., at the annual general meeting of shareholders held June 14, 2007, elected new management team and new board of directors as follows: Laurent Hallé, Sébastien Plouffe and Xin Zhao was elected to the board of directors of the company as Class III directors for a three-year term. Former Class III directors John Brock and Wayne Roberts did not stand for re-election at the annual general meeting and Class II director R.E. Gordon Davis voluntarily tendered his resignation following the meeting to accommodate the board restructure. Class I director Lawrence Page remains on the board.

On June 2007, the Company changed his head office and move at 1100 – 1199 West Hastings St. Vancouver and Lease an office in Rouyn-Noranda for its administrative and exploration activities (see Contractual Obligation).

PROPERTIES

Villedieu and Lindsay Properties

The Villedieu and Lindsay properties are contiguous properties. The Villedieu/Lindsay Uranium 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 26 unpatented mining claims (1534 hectares) in Villedieu township. The Villedieu/Lindsay project is an early stage exploration project with historical uranium and rare-element occurrences and economic potential for these commodities.

The property is underlain 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. From this time, several mining companies have sporadically undertaken exploration work in the region. The increased price of uranium over the last several years (currently at \$90 US/pound; http://www.uxc.com/review/uxc_prices.aspx) has reinvigorated the 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. Aurizon Mines Ltd. has carried out a magnetic, electromagnetic and an airborne radiometric survey, covering a vast territory of this sector. In addition, a till sampling survey was conducted by Aurizon Mines Ltd. 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 north-east dispersion trend of gold in heavy mineral concentrate is located immediately to the north-west 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 0.1g/T of gold in 27% of samples, including analyses of 1.3g and 2.0 g/T of gold.

The exploration work on the Villedieu/Lindsay property is expected to start early September 2007. Prospection and geological mapping will be followed by a radiometric airborne survey. Till sampling program is also planned on the third quarter only if the ground is appropriate for such work.

The Villedieu Property was approved for filing by the TSX Venture Exchange on May 8, 2007 and 550,000 shares were issued at a deemed total value of \$544,500.

The Lindsay Property was approved for filing by the TSX Venture Exchange on August 23, 2007 and 700,000 common shares will be issued and a cash payment of a total of \$25,000 will be done.

Liquidity and Capital Resources

At June 30, 2007, the Company had stock options outstanding allowing for the purchase of up to 144,000 common shares at \$1.50 per share until 2008, 240,300 common shares at \$1.00 per share until 2009 and 165,000 common shares at \$1.10 per share until 2012. As at June, 2007, the Company had a working capital of \$287,071 (March 31, 2007: deficit of \$227,637), which included cash and cash equivalents of \$346,224 (March 31, 2007: \$7,757). X-Terra management is actively pursuing such additional sources of financing.

In May 2007, the Company closed a debt settlement of \$183,534 with the issuance of 327,739 common shares at a deemed price of 56 cents per share. Also, at the end of May 2007, the Company closed a non-brokered private placement of one million units at a price of 56 cents per unit for gross proceeds of \$560,000. Each unit consists of one common share of the company and one non-transferable share purchase warrant, with each warrant entitling the holder to acquire one additional common share of the company at a price of 70 cents per share until May 28, 2009. Finders' fees of \$22,400 has been paid in connection with the private placement. All securities issued are subject to a four-month hold period expiring Sept. 29, 2007.

The Company has limited financial resources at the moment and its ability to continue operating is dependent on management's ability to secure additional financing. Failure to obtain additional financing could result in limited exploration work. Furthermore, the Company may be unable to finance the cost required to complete recommended programs. The Company is dependent on raising funds by the issuance of shares or disposing of interests in its mineral properties (by option, joint ventures or sales) in order to finance further acquisitions, undertake exploration and development of other mineral properties and meet general and administrative expenses in the immediate and long term. There can be no assurance that the Company will be successful in raising the required financing. The new management team is actively pursuing such additional sources of financing, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. Because of this uncertainty, there is substantial doubt about the ability of the company to continue as a going concern. The Consolidated Financial Statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern.

RESULTS OF OPERATIONS

Mineral Projects

From January 1 to June 30, 2007, the Company expended \$910 in general exploration. The Company reviewed opportunities from third parties but did not acquire rights to any projects or properties for the first quarter, and wrote off all of the \$910 in general exploration expenditures incurred during the first quarter. There are no exploration expenditures incurred during the second quarter.

Corporate

Selected Administrative Expenses and Other Expenses:

	3 MONTHS ENDED JUNE 30, 2007 (\$)	3 MONTHS ENDED JUNE 30, 2006 (\$)	6 MONTHS ENDED JUNE 30, 2007 (\$)	6 MONTHS ENDED JUNE 30, 2006 (\$)
Insurance	16,000	1,700	16,000	1,700
Professional fees	135,536	8,616	136,308	12,627
General administrative expenses	17,423	2,377	21,055	4,970
Shareholder's communication	1,497	1,604	3,030	2,455
Transfer agent and regulatory fees	24,457	18,660	31,382	24,855
Other	482	192	803	291
Total administrative expenses	195,395	33,149	208,578	46,898

During the three month Period, the Company incurred administrative expenses of \$195,395 (comparative period 2006: \$33,149). The amount is more high comparatively with the same quarter of 2006 and show new activities in the company to put in place some financing and the acquisition of many properties and its explain the augmentation of the professional fees which include audit and legal fees. Management and administrative services and Office operation and facilities were provided by Badger & Co. (see "Related Party Transactions") until June 14, 2007 and by Terrax Management after this date, and are established on the basis of the time expended on management of the Company.

Stock-based compensation is a non-cash item, resulting from the application of the Black-Scholes Option Pricing Model using assumptions in respect of expected dividend yield, average risk-free interest rates, expected life of the options and expected volatility. The \$35,970 (comparative period 2006: \$0,) represents the fair value of the vested portion of options for the three month period ended June 30, 2007.

Financing	Date	Purpose	Commercial objectives
Private financing \$560,000	May 2007	Working capital and exploration work.	This financing consolidates the Company's working capital

During the last quarter, the Company has received an amount of \$560,000 in private investments for its financing activities

SUMMARY QUARTERLY AND ANNUAL INFORMATION

Summary of quarterly Results

The following table sets forth a comparison of revenues and earnings (unaudited) for the previous eight quarters ending with June 30, 2007.

	June 30, 2007 (\$)	March 31, 2007 (\$)	December 31, 2006 (\$)	September 30, 2006 (\$)	June 30, 2006 (\$)	March 31, 2006 (\$)	December 31, 2005 (\$)	September 30, 2005 (\$)
Current Assets	346,224	8,385	14,097	11,542	14,162	35,048	20,780	131,644
Mining properties	544,500	-	-	-	-	-	-	1,120,199
Current Liabilities	70,311	236,022	227,641	289,427	283,186	352,644	323,594	251,296
Shareholders' Equity (Deficiency)								
Capital Stock	22,712,011	21,813,127	21,813,127	21,813,128	21,813,128	21,811,753	21,931,172	21,931,951
Contributed Surplus	496,824	460,854	460,854	460,853	460,853	460,853	438,591	415,550
Deficit	(22,732,264)	(22,501,618)	(22,487,525)	(22,551,866)	(22,543,005)	(22,578,903)	(22,541,857)	(21,335,653)
Gain (Loss) for the period	(230,646)	(14,093)	101,387	(8,861)	(1,148)	(37,046)	(1,232,742)	(47,831)
Working Capital (Deficit)	287,071	(227,637)	(213,544)	(277,885)	(269,024)	(317,597)	(302,814)	(119,652)
Basic and diluted loss per share	(0.06)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.04)	(0.01)

Selected Annual Information

The following table sets forth a comparison of revenues and earnings (audited) for the previous three most recently completed financial years:

	December 31, 2006	December 31, 2005	December 31, 2004
	(\$)	(\$)	(\$)
Revenue	-	-	-
Income (loss) before discontinued operations and extraordinary items	-	-	-
Income (loss)	54,332	(1,465,324)	(455,500)
Income (loss) per share	0.00	(0.04)	(0.02)
Total assets	14,097	32,080	1,452,157
Total long-term financial liabilities	-	-	-
Cash dividends declared	-	-	-

Variations in annual and quarterly loss and loss per shares are affected by administration costs and by the write down or write offs of mineral property carrying costs. These losses vary from period to period and from year to year depending on the Company's level of activity, and the amount of write offs relating to the project(s) abandoned during the year. Resource assets balances are dependent on the costs spent to date to earn an interest in projects held at period end. In accordance with its policies, management reviews the carrying value of the deferred mineral property acquisition and exploration expenditures to assess whether there has been any impairment in value. In the event that mineral deposits are determined to be insufficient to recover the carrying value of any property, the carrying value is written down or written off, as appropriate.

No cash dividends have been declared or paid since the date of incorporation and the Company has no present intention of paying dividends on its common shares. The Company anticipates that all available funds will be used to finance the growth of its business.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

CONTRACTUAL OBLIGATIONS

On June 15, 2007, the Company has entered an agreement to lease an office in Rouyn-Noranda for his administrative and exploration activities at a base rate of \$2,000 per month. The term of the Lease is a periodic tenancy commencing on June 15, 2007 and continuing on a year-to-year basis (June 30, 2008) until the Landlord or the Tenant terminates the tenancy. Upon 30 days notice for the Landlord and 15 days notice for the Tenant, each party may terminate this Lease without cause or reason.

RELATED PARTY TRANSACTIONS

The Company had management agreements with Badger & Co. Management Corp. ("Badger & Co."), a company owned by John S. Brock (Chief Executive Officer, President and a director of the Company until June 14, 2007), Wayne J. Roberts (Vice-President Exploration and a director of the Company until June 14, 2007) and Jeannine P. M. Webb (Chief Financial Officer and Secretary of the Company until June 14, 2007).

Under the agreements with Badger & Co., the Company was charged from January 1 to June 30, 2007 for the following:

- Cost of operations and administration: \$7,543
- Fees for professional services provided at per diem rates: \$7,331
- Exploration salaries and wages and project management fees: \$136

On May 16, 2007, the Company closed a debt settlement for the loans made by John S. Brock and Wayne J. Roberts, through their private companies, on February 2, 2006 and October 26, 2006 in the aggregate principal amount of \$175,000 with interest at 6% per annum as evidenced by promissory notes, for a total of \$183,534, with the issuance of 327,739 common shares at a deemed price of 56 cents per share. The shares are subject to exchange and Multilateral Instrument 45-102 hold periods expiring on Sept. 17, 2007.

The Company has management agreements with Terrax Management Corp. ("Terrax"), a company owned by Mr. Ricky Baril (Insider of the Company). With the actual shortage in the sector for human resources, the actual board of directors decided that it will be better for X-Terra to use Terrax' expertise to manage the corporate and administrative services. The fees will be charged by Terrax on a per hour basis. Terrax will co-ordinates and provides liaison between its client companies, auditors, and other professional advisors for additional services. In the same way, X-Terra board of directors decided to use Terrax Management' technical team services to initiate the exploration works on the Villedieu and Lindsay properties located in Quebec. In consideration for the service provided by Terrax in implementing this program, Terrax shall be entitled to receive and the company shall pay 8% of all exploration expenditures.

Under the administrative agreement with Terrax, the Company was charged from April 1 to June 30, 2007 for the following:

- Fees for administrative services: \$11,130

SUBSEQUENT EVENTS

- On August 23, 2007, The TSX Venture Exchange has accepted for filing documentation of a sale and purchase agreement dated June 1, 2007, between X-Terra Resources Corp. and 664548-8 Canada Inc. (Ricky Baril) and Ressources Minerales JDG Ltee. (Julien Gadoury) whereby the company may acquire a 100-percent interest in 21 unpatented mining claims (the Lindsay claims) located in the Villedieu township, Quebec. The total consideration payable to the vendors is a total of \$25,000 cash and 700,000 common shares of the company.

PROPOSED TRANSACTIONS

There are no new acquisitions or proposed transactions contemplated as at the date of this report.

CRITICAL ACCOUNTING ESTIMATES

The detailed accounting policies are listed in Note 2 to the Financial Statements for the year ended December 31, 2006. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, stock-based compensation and disclosure of contingent liabilities at the date of the financial statements and the reported amount of income and expenses during the year. Actual results could differ from those estimates. Management uses its best estimates for recording mineral property carrying values based on expenditures incurred, the results of any exploration conducted, prevailing market conditions and future plans for the projects.

CHANGES IN ACCOUNTING POLICIES, INCLUDING INITIAL ADOPTION

Effective January 1, 2007 the Company was required to adopt the new Canadian Accounting Standards Board accounting standards dealing with the recognition, measurement and disclosure of financial instruments, hedges and comprehensive income, together with many consequential changes throughout the CICA Handbook. The adoption of these new standards had no significant impact on the company's financial statements.

FINANCIAL INSTRUMENTS

The Company only invests its cash in bank term deposits and/or instruments that are deemed to be very low risk.

OTHER MD&A REQUIREMENTS

Shares outstanding

As at August 24, 2007, the Company had the following:

- Authorized - Unlimited no par value common shares
- Issued - 5,516,672 shares

Warrants outstanding: 1,000,000 Warrants at an exercising price of \$0.70 and an expiry date of May 28, 2009.

Stock Options outstanding:

<u>Number of stock options outstanding</u>	<u>Number of stock options exercisable</u>	<u>Exercise Price (\$)</u>	<u>Expiry Date</u>
10,000	10,000	1.50	Aug 21/08
134,000	134,000	1.50	Jan 3/08
240,300	240,300	1.00	Sept 17/09
<u>165,000</u>	<u>41,250</u>	1.10	June 14/12
<u>549,300</u>	<u>425,550</u>		

The attributed amount of share purchase options granted to the Directors during the period was estimated using the Black Scholes pricing model with the following assumptions: life of 5 years for these options, risk-free interest rate of 4.71%, expected volatility of 111% and no expected dividends.

Escrowed or pooled shares: nil shares.

Risk Factors

The securities of the Company are highly speculative. In evaluating the Company, it is important to consider that the Company is a resource exploration enterprise and that it is in the exploratory stage of its operations. To date, the Company has had no revenues and there is no immediate expectation of revenues. A prospective investor or other person reviewing the Company should not consider an investment in the Company unless the investor is capable of sustaining an economic loss of the entire investment. All costs have been funded through equity and related party advances. Certain risks are associated with the Company's business including:

Mineral Exploration and Development

The Company's properties are in the exploration stage and are without a known body of commercial ore. Development of any of the Company's properties will only follow upon obtaining satisfactory exploration results. Mineral exploration and development involve a high degree of risk and few properties which are explored are ultimately developed into producing mines. There is no assurance that the Company's mineral exploration and development activities will result in the discovery of a body of commercial ore on any of its properties. Several years may pass between the discovery and the development of commercial mineable mineralized deposits. Most exploration projects do not result in the discovery of commercially mineralized deposits.

Trends

The Company's financial success is dependent upon the discovery of properties which could be economically viable to develop. Such development could take years to complete and the resulting income, if any, is difficult to determine. The sales value of any mineralization discovered by the company is largely dependent upon factors beyond the Company's control, such as market value of the products produced. Other than as disclosed herein, the company is not aware of any trends, uncertainties, demands, commitments or events which are reasonably likely to have a material effect on the Company's results or financial position.

Operating Hazards and Risks

Mineral exploration involves many risks. The operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of resources, any of which could result in work stoppages and damage to persons or property or the environment and possible legal liability for any and all damage. Fires, power outages, labour disruptions, flooding, explosions, cave-ins, land slides and the inability to obtain suitable or adequate machinery, equipment or labour are some of the risks involved in the operation of mines and the conduct of exploration programs. Although the Company will, when appropriate, secure liability insurance in an amount which it considers adequate, the nature of these risks is such that liabilities might exceed policy limits, the liability and hazards might not be insurable, or the Company might elect not to insure itself against such liabilities due to high premium costs or other reasons, in which event the Company could incur significant costs that could have a material adverse effect upon its financial condition.

Economics of Developing Mineral Properties

Substantial expenditures are required to establish ore reserves through drilling, to develop metallurgical processes to extract metal from ore and to develop the mining and processing facilities and infrastructure at any site chosen for mining. No assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operation or that the funds required for development can be obtained on a timely basis.

The marketability of any minerals acquired or discovered may be affected by numerous factors which are beyond the Company's control and which cannot be predicted, such as market fluctuations, the proximity and capacity of milling facilities, mineral markets and processing equipment, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals, and environmental protection. Depending on the price of minerals produced, the Company may determine that it is impractical to commence or continue commercial production.

Environmental Factors

The Company proposes to conduct exploration activities in various parts of Canada. Such activities are subject to laws, rules and regulations governing the protection of the environment, including, in some cases, posting of reclamation bonds. In Canada, extensive environmental legislation has been enacted by federal, provincial and territorial governments. All phases of the Company's operations are subject to environmental regulation in the jurisdictions in which it operates. Environmental legislation is evolving in a manner which requires stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed properties and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. The cost of compliance with changes

in governmental regulations has the potential to reduce the profitability of operations or to preclude entirely the economic development of a property. Environmental hazards may exist on the Company's properties, which hazards are unknown to the Company at present, which may have been caused by previous or existing owners or operators of the properties. The Company is not aware of any environmental hazards on any of the properties held by the Company.

The approval of new mines on federal lands in Canada is subject to detailed review through a clearly established public hearing process, pursuant to the Federal Canadian Environmental Assessment Act. In addition, lands under federal jurisdiction are subject to the preparation of a costly environmental impact assessment report prior to commencement of any mining operations. These reports entail a detailed and scientific assessment as well as a prediction of the impact on the environmental and proposed development. Further, under such review process, there is no assurance that regulatory and environmental approvals will be obtained on a timely basis or at all. Failure to comply with the legislation may have serious consequences. Orders may be issued requiring operations to cease or be curtailed or requiring installation of additional facilities or equipment. Violators may be required to compensate those suffering loss or damage by reason of its mining activities and may be fined if convicted of an offense under such legislation.

Canadian provincial mining legislation establishes requirements for the decommissioning, reclamation and rehabilitation of mining properties in a state of temporary or permanent closure. Such closure requirements relate to the protection and restoration of the environment and the protection of the public safety. Some former mining properties must be managed for long periods of time following closure in order to fulfill closure requirements. The costs of closure of mining properties, and, in particular, the cost of long term management of mining properties can be substantial. The Company intends to progressively rehabilitate its mining properties during their period of operation, should any properties become operational, so as to reduce the cost of fulfilling closure requirements after the termination or suspension of production.

The Company has adopted environmental practices designed to ensure that it continues to comply with or exceeds all environmental regulations currently applicable to it. All of the Company's activities are in compliance in all material respects with applicable environmental legislation. The Company is currently engaged in exploration with nil to minimal environmental impact.

Uncertainty of Ownership Rights and Boundaries of Resource Properties

There is no assurance that the rights of ownership and other rights in concessions held by the Company are not subject to loss or dispute particularly because such rights may be subject to prior unregistered agreements or transfers or other land claims and may be affected by defects and adverse laws and regulations which have not been identified by the Company. Notwithstanding that the exploration and exploitation concessions in respect of which the Company may hold various interests have been surveyed, the precise boundary locations thereof may be in dispute. Although the Company has exercised the usual due diligence with respect to title to properties in which it has a material interest, there is no guarantee that title to the properties will not be challenged or impugned. The Company's mineral property interest may be subject to prior unregistered agreements or transfers or native land claims and title may be affected by undetected defects. In addition, certain of the mining claims in which the Company has an interest are not recorded in the name of the Company and cannot be recorded until certain steps are taken by other parties. Before a number of claims under option can be recorded in the Company's name, the underlying title holder has to assign title to the Company once the Company satisfies its option agreement obligations. There are no assurances that the underlying title holder will assign title.

Potential Conflicts of Interest

The Directors of the Company serve as directors of other public and private companies and devote a portion of their time to manage other business interests. This may result in certain conflicts of interest. To the extent that such other companies may participate in ventures in which the Company is also participating, such directors and officers of the Company may have a conflict of interest in negotiating and reaching an agreement with respect to the extent of each company's participation. The laws of British Columbia require the directors and officers to act honestly, in good faith, and in the best interests of the company and its shareholders. However, in conflict of interest situations, directors of the Company may owe the same duty to another company and will need to balance the competing obligations and liabilities of their actions. There is no assurance that the needs of the Company will receive priority in all cases. From time to time, several companies may participate together in the acquisition, exploration and development of natural resource properties, thereby allowing these companies to: (i) participate in larger programs; (ii) acquire an interest in a greater number of programs; and (iii) reduce their financial exposure with respect to any one program. A particular company may assign, at its cost, all or a portion of its interests in a particular program to another affiliated company due to the financial position of the company making the assignment. In determining whether or not the Company will participate in a particular program and the interest therein to be acquired by it, it is expected that the directors of the Company will primarily consider the degree of risk to which the Company may be exposed and its financial position at the time.

Indemnity and Protection of Directors, Officers and Employees

Article 19.1 of the Registrant's Articles states:

"Subject to the provisions of the Company Act [the British Columbia Company Act], the directors shall cause the Company to indemnify a director or former director of the Company and the directors may cause the Company to indemnify a director or former director of a corporation of which the Company is or was a shareholder and the heirs and personal representatives of any such person against all costs, charges and expenses including any amount paid to settle an action or satisfy a judgment, actually and reasonably incurred by him or them including an amount paid to settle an action or satisfy a judgment in a civil, criminal or administrative action or proceeding to which he is or they are made a party by reason of his or their being or having been a director of the Company or a director of such corporation, including any action brought by the Company or any such corporation. Each director of the Company, on being elected or appointed, shall be deemed to have contracted with the Company on the terms of the foregoing indemnity."

The Article also provides similar protection for officers and employees for liabilities incurred arising out of the performance of their duties or by reason of their position with the Registrant. Thus, the Company may be required to pay amounts to settle any such claims that may arise, if any. The impact of any such possible future indemnity protection cannot be determined at this time. Insofar as indemnification for liabilities arising under the U.S. Securities Act of 1933 (the "1933 Act") may be permitted to directors, officers or persons controlling the Company pursuant to the foregoing provisions, the Company has been informed that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the 1933 Act and is therefore unenforceable.

Potential Dilution

Commitments exist which could require the issuance of additional shares of the Registrant, such as by way of the exercise of stock options and the exercise of outstanding share purchase warrants. Furthermore future equity financings, property transactions, and issuance of additional stock options among other things may require the subsequent issuance of the Registrant's securities.

No U.S. Listing of the Company's Securities

The Registrant's Common Shares are listed on the TSX-Venture Exchange ("TSX"). The Registrant's investor base is located principally outside the United States and therefore, it has no current plans to apply for the listing of its shares or to otherwise qualify its securities on any U. S. stock exchange or the NASDAQ automated quotation system. As a result, the market on the Registrant's securities is limited, particularly in the United States. If market interest changes, and the Company meets the applicable eligibility requirements of NASDAQ or other U.S. exchanges in the future, it may reconsider this policy. Investors should recognize that U.S. market liquidity will not be readily available.

Canadian Aboriginal Land Claims

Canadian Aboriginal rights may be claimed on Crown properties or other types of tenure with respect to which mining rights have been conferred. The Company is aware of the mutual benefits afforded by cooperative relationships with indigenous people in conducting exploration activity and is generally supportive of measures established to achieve such cooperation. While there is, to the Company's knowledge, no existing claim in respect of any of its properties, the advent of any future aboriginal land claims and the outcome of any aboriginal land claims negotiations cannot be predicted.

Competition

The mineral industry is intensely competitive in all its phases. The Company competes with many companies possessing greater financial resources and technical facilities than itself for the acquisition of mineral concessions, claims, leases and other mineral interests as well as for the recruitment and retention of qualified employees. Many of the mining companies with which the Company competes have operations and financial strength many times that of the Company. Nevertheless, the market for the Company's possible future production of minerals tends to be commodity rather than enterprise oriented since mineral products tend to be fungible. As a result, the competitive factors are principally impacted by overall market issues rather than by corporate presence and strength. Accordingly, the Company expects to compete by keeping its production costs low (as yet, the Company does not have any property in the development or production stage) through judicious selection of the property to be developed and by keeping overhead and other charges within industry standards.

Governmental Regulation

Operations, development and exploration on the Company's properties are affected to varying degrees by: (i) government regulations relating to such matters as environmental protection, health, safety and labour; (ii) mining law reform; (iii) restrictions on production, price controls, and tax increases; (iv) maintenance of claims; (v) tenure; and (vi) expropriation of property. There is no assurance that future changes in such regulation, if any, will not adversely affect the Company's

operations. Changes in such regulation could result in additional expenses and capital expenditures, availability of capital, competition, reserve uncertainty, potential conflicts of interest, title risks, dilution, and restrictions and delays in operations, the extent of which cannot be predicted.

The Company is at the exploration stage on all of its properties. Exploration on the Company's properties requires responsible best exploration practices to comply with Company policy, government regulations, and maintenance of claims and tenure. The Company is required to be registered to do business and have a valid prospecting license (required to prospect or explore for minerals on Crown Mineral land or to stake a claim) in any Canadian province in which it is carrying out work. Mineral exploration primarily falls under provincial jurisdiction. However, the Company is also required to follow the regulations pertaining to the mineral exploration industry that fall under federal jurisdiction, such as the Fish and Wildlife Act.

If any of the Company's projects are advanced to the development stage, those operations will also be subject to various laws and regulations concerning development, production, taxes, labour standards, environmental protection, mine safety and other matters. In addition, new laws or regulations governing operations and activities of mining companies could have a material adverse impact on any project in the mine development stage that the Company may possess.

Uncertainty of Markets for Metals

The global market price for metals is influenced by numerous factors beyond the control of the Company. Such factors include supply and demand, inflation, imposition of export controls, government regulated ad valorem taxes and royalties that may be imposed on metal production, refining costs and penalties, labor problems experienced by large producers and market price fluctuations resulting from speculative and production hedging activity. The exact effect of these factors cannot be accurately predicted and the combination of these factors may result in the Company not receiving an adequate return on invested capital.

Uncertainty of Establishing Mineral Reserves

Locating mineral deposits depends on a number of factors, including the technical skill of the exploration personnel involved. Whether a mineral deposit, once discovered, will be commercially viable also depends on a number of factors, including the particular attributes of the deposit (i.e., the size and grade of the deposit and the proximity of the deposit to the mine development infrastructure) as well as the market prices of precious metals and ores, which can be highly volatile. Factors contributing to the uncertainty of establishing reserves of minerals may be resolved by further exploration for additional mineralization, establishment of infrastructure by non-related entities, development of improved mining technologies and increased market prices for the metals. In the event that the Company's exploration efforts succeed and established reserves of minerals are identified, but various factors make mining not commercially viable, the Company would postpone mine development until there was an improvement in the factors contributing to commercial viability. In the event that such commercial viability is never attained, the Company could seek to sell or otherwise realize value or could be required to abandon its business and fail as a "going concern."

Need for Additional Capital

Currently, exploration programs and feasibility studies are pursued by the Company with an objective of establishing mineralization of commercial quantities. The Company may fund the proposed programs and feasibility studies through equity financing and the possible exercise of outstanding options. Such funding would be dilutive to current shareholders. Should sources of equity financing not be available to the Company, the Company would seek a joint venture relationship in which the funding source could become entitled to a shared, negotiated interest in the property or the projects. If exploration programs carried out by the Company are successful in establishing ore of commercial quantities and/or grade, additional funds will be required to develop the properties and reach commercial production. In that event, the Company may seek capital through further equity funding, debt instruments, by offering an interest in the property being explored and allowing the party or parties carrying out further exploration or development thereof to earn an interest, or through a combination of funding arrangements. There can be no assurance of such funding sources. Furthermore, if the Company is not able to obtain the capital resources necessary to meet property payments or exploration or development obligations which now apply or which would apply in joint ventures with others, its potential as a "going concern" could be seriously affected.

Management and Directors

The Company is dependent on a relatively small number of key directors and officers: Laurent Hallé and Sébastien Plouffe. Loss of any one of those persons could have an adverse affect on the Company. The Company does not maintain "key-man" insurance in respect of any of its management.

Price Fluctuations: Share Price Volatility

In recent years, the international securities markets have experienced high level of price and volume volatility, and the market price of securities of many mineral exploration companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that the continual fluctuations in price will not occur.

Business Risks of Mineral Exploration

The Company is engaged in the exploration of mineral resource properties. To date, any exploration program carried out by the Company has been an exploratory search for ore. Mineral exploration involves significant operating and investment risks and few properties which are explored are ultimately successfully developed into producing mines. The Company does not have any interests, direct or indirect, in producing mines or mineral properties which, as of the date hereof, have a known body of commercial ore. Exploration for mineral resources requires compliance with the laws of the jurisdiction in which the exploration is taking place and potential changes to laws relating to exploration activities, environmental considerations and ownership of the properties being explored can have a significant impact on the Company.

Uninsurable Risks

In the course of exploration and development of, and production from, mineral resource properties, certain risks, and in particular, unexpected or unusual geological formations and engineering operating conditions may occur and may expose the Company to liabilities. Should such liabilities arise the payment of such liabilities may have a material, adverse effect on the Company's financial position. It is not always possible to fully insure against such risks or the Company may elect not to cover such risks because of the high cost of such insurance. The Company may become subject to liability for pollution or hazards. Payment of liabilities for claims for such occurrences could reduce or eliminate any future profitability and could result in increasing costs and a decline in the value of the securities of the Company. Currently, the Company is a named insured with respect to Commercial General Liability and Excess Liability in a gross amount limited to \$10 million (Cdn.) for each occurrence.

Market Risk

The Company is in the business of mineral exploration. Metal prices and foreign exchange rates may fluctuate widely from time to time. The Company has not entered into market instruments for trading or other purposes.

Variations in Operating Results

The Company was incorporated on February 24, 1987 and since incorporation has not realized net income nor paid dividends. Variations in annual and quarterly loss and loss per shares are affected by the administration costs and by the write down or write offs of mineral property carrying costs. There is no assurance that these trends in operating results will change.

Plan of Operations and Financial Sources and Liquidity

See Liquidity and Capital Resources, Results of Operations, and Outstanding Share Data contained within this document.

To date, the Company's mineral exploration activities have been funded through sales of common shares. The Company's ability to continue operations is dependent on management's ability to secure additional financing. Management is actively pursuing such additional sources of financing, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. Because of this uncertainty, there is substantial doubt about the ability of the Company to continue as a going concern. The Consolidated Financial Statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern.

Additional Financing

In order to continue exploring its mineral properties and acquiring additional properties, management may be required to pursue additional sources of financing. The Company has limited financial resources and there is no assurance that additional funding will be available to allow the Company to fulfill its obligations on existing exploration properties. Failure to obtain additional financing could result in delay or indefinite postponement of further exploration and the possible, partial or total loss of the Company's interest in certain properties. The Company may, in the future, be unable to meet its share of costs incurred under agreements to which it is a party and the Company may consequently have its interest in the properties subject to such agreements reduced. Furthermore, if other parties to such agreements do not meet their share of such costs, the Company may be unable to finance the cost required to complete recommended programs.

OTHER INFORMATION

The Company's web address is www.xterraresources.com. Other information relating to the Company may be found on the SEDAR website (www.SEDAR.com).

DISCLOSURE CONTROLS AND PROCEDURES

Current securities policies in Canada require that management of the Company certifies that it has assessed the effectiveness of the Company's disclosure controls and procedures as at June 30, 2007. Management has concluded that the disclosure controls as at June 30, 2007 were effective in ensuring that all material information required to be filed had been provided to it in a timely manner, and that the information was recorded, processed and reported within the time period necessary to prepare the filings.

FORWARD LOOKING STATEMENTS

This discussion includes certain statements that may be deemed "forward-looking statements". Other than statements of historical facts, statements in this discussion include, but are not limited to, the Company's expectations as to, future production, reserve potential, exploration drilling, exploration activities and events or developments, commodities market prices, timetables, costs, capital expenditures, work programs, and budgets. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, the risks, hazards, uncertainties and factors that could cause actual results to differ materially from those in forward-looking statements include, but are not limited to, exploitation and exploration successes, continued availability of capital and financing, and general economic, environmental, industry, market or business conditions. Such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Investors are cautioned that any such statements are not guarantees of future performance, that the Company expressly disclaims any responsibility for revising or expanding the forward-looking statements to reflect actual results or developments, and that actual results or developments may differ materially from those projected, in the forward-looking statements.

STRATEGY AND PERSPECTIVE

X-Terra is a mineral resources company focused on acquiring and exploring uranium properties in Canada. X-Terra has active uranium exploration projects in province of Quebec, Canada. Priority targets are high-grade, shallow uranium deposits that are amenable to low-cost open-pit mining techniques.

Recognizing the global need for clean energy through nuclear power, X-Terra is aggressively expanding and exploring existing properties and will continue to acquire additional prospective projects. At X-Terra we are committed to discovering new sources of uranium - the clean fuel of today and tomorrow.

Increasing the actual cash position in X-Terra is actually a priority for the new team in place.

Additional information and ongoing disclosure

The Company regularly discloses complementary information by press release and quarterly financial statements on the SEDAR Internet site (www.sedar.com)

CONFIRMATION

This management report was approved by the Board of Directors

(signed) Laurent Hallé

Laurent Hallé
President

August 24, 2007.