X-TERRA RESOURCES CORPORATION
(the "Company" or "X-Terra")

MANAGEMENT DISCUSSION AND ANALYSIS
("MD&A")

FOR THE YEAR ENDED DECEMBER 31, 2009
(the "Period")

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). The following management's analysis of X-Terra's operating results and financial position should be read in conjunction with the audited consolidated financial statements of the Company for the years ended December 31, 2009 and 2008 and the related notes thereto. 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 and the auditors 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 April 30, 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 Frankfort and Berlin Exchanges in Europe under the symbol DFUA.

In July 2009, X-Terra Resources Corp. has released the results of its annual and special meeting of shareholders held on June 25, 2009, in Rouyn-Noranda, Que. At the meeting, shareholders elected Martin Dallaire, Sylvain Champagne, Sebastien Plouffe, Xin Zhao, Richard Patricio and Sheldon Inwentash as members of the board of directors of X-Terra Resources. The shareholders also reappointed PricewaterhouseCoopers LLP, chartered accountants, as the auditors of X-Terra Resources. At the meeting, shareholders also approved a resolution ratifying and confirming X-Terra Resources' stock option plan.

X-Terra Resources also announced that following the shareholders meeting, the board of directors appointed Mr. Dallaire as president and chief executive officer of X-Terra Resources, and Mr. Champagne as secretary and chief financial officer. X-Terra Resources' board of directors also granted a total of 290,000 stock options to X-Terra Resources' six directors. The exercise price of the options is 50 cents and the options expire on July 2, 2014. The options were granted pursuant to X-Terra Resources' stock option plan.

During fall 2009, 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 will be completed by Geophysics GPR International-KalusAir Services Inc. (KASI). The magnetic survey maps will be used to outline the structural and lithological geology of some specific targeting sectors for further exploration.

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 $41US/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 close to $300,000 in exploration work on this property in 2008 and $119,395 in 2009. A 500 m drilling campaign is actually in progress on the Lindsay property to test rare earth exploration showings found in 2008.

The 2008 exploration program has consisted of exploration and 76 till samples on a 1,000-metre-by-500-metre grid, conducted on a portion of the area covered by the government airborne survey. The objective of the till sampling was to delineate isolated heavy mineral concentrate gold anomalies.

The maps are available on the Company's website at www.xterraresources.com.

Cool Lake Property (40 claims)

Only $8,564 has been spent on the Cool Lake property in 2009. 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.

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.

During fall 2009, 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 will be completed by Geophysics GPR International-KalusAir Services Inc. (KASI). The magnetic survey maps are actually under study to outline the structural and lithological geology of some specific targeting sectors for further exploration.

The maps are available on the Company's website at www.xterraresources.com.

SUMMARY OF ANNUAL AND QUARTERLY INFORMATION

Selected Annual Information and Operation Results

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

	December 31, 2009	December 31, 2008	December 31, 2007
	($)	($)	($)
Interest income	28,480	76,555	7,993
Income (loss)	(146,993)	153,212	(291,418)
Income (loss) per share	(0.01)	0.02	(0.06)
Total assets	7,351,778	6,612,230	1,511,778

Due to its field of activity, the Company does not generate revenue on a regular basis and must continually issue shares in order to insure the financial means for mining and oil and gas projects and its everyday transactions. During the fiscal year 2009, the Company registered a net loss of $146,993 in comparison with the net income registered for the fiscal year 2008 at $153,212. The Company has recorded interest income of $28,480 ($76,555 in 2008), no gain on sale of property (2008 - $835,766) and unrealized gain on short-term investments of $198,284 (unrealized loss in 2008 - $12,090). The Company has recorded an expenses of $60,198 regarding the extension of 650,000 warrants (2008 – nil). There is $130,817 future income tax recovery in 2009 (2008 - nil). The difference regarding the interest revenue is mainly due to the liquidity and interest rate decreasing. The Company's administrative expenses for 2009 are at $438,658 (2008 - $747,019) and include stock-based compensation of $69,020 (2008 - $256,520). Insurance fees have decreased from $14,921 in 2008 to $8,133 in 2009. Professional fees have decreased from $93,214 in 2008 to $44,492 in 2009 mainly due to the decreasing of the legal fees from $54,821 in 2008 to $11,819 in 2009. General administrative expenses have decreased and went from $343,124 in 2008 to $285,606 in 2009 mainly due to the consulting fees which went from $58,000 in 2008 to none in 2009, and travelling expenses which went from $28,781 in 2008 to $18,654 in 2009. Allocated sums for transfer agent and regulatory fees have also decreased from $27,580 in 2008 to $19,553 in 2009. The other administrative expenses remained relatively stable, are cyclical and may fluctuate according to the events, which are not always predictable.

Summary of Quarterly Results

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

Period	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Years	2009	2009	2009	2009	2008	2008	2008	2008
Current assets	5,853,199	5,109,585	4,966,967	4,856,967	5,233,450	4,898,577	618,524	457,584
Mining and oil and gas properties	996,655	996,655	988,365	988,365	988,074	996,034	989,757	976,521
Current liabilities	35,482	74,387	30,796	45,304	59,180	215,529	72,054	75,628
Shareholders' Equity								
Share Capital	25,440,232	25,440,232	25,440,232	25,703,086	26,191,429	26,413,577	23,732,912	23,195,520
Deficit	(22,772,724)	(22,918,032)	(22,804,013)	(22,738,064)	(22,625,731)	(23,367,883)	(23,124,202)	(22,839,872)
Income (loss) for the period	145,308	(114,019)	(65,949)	(112,333)	742,152	(243,681)	(284,330)	(60,929)
Working capital	5,817,717	5,035,198	4,935,731	4,811,663	5,174,270	4,683,048	546,470	381,956
Basic and diluted income (loss) per share	0.01	(0.01)	(0.01)	(0.01)	0.06	(0.02)	(0.04)	(0.00)

Fourth Quarter

During the three months period ended December 31, 2009, the Company registered a net income of $145,308 in comparison with the net income registered for the quarter ended December 31, 2008 at $742,152. The Company has recorded, for the quarter ended December 31, 2009, interest income of $2,778 ($34,982 for the quarter ended December 31, 2008), no gain on sale of property ($835,766 for the quarter ended December 31, 2008) and unrealized gain on short-term investments of $160,600 (unrealized loss of $12,090 for the quarter ended December 31, 2008). The Company registered $130,817 future income tax recovery for the last quarter of 2009 in comparison of none for the last quarter of 2008. The difference regarding the interest revenue is mainly due to the liquidity and interest rate decreasing. The Company's administrative expenses for the quarter ended December 31, 2009 are at $82,971 ($116,506 for the quarter ended December 31, 2008). Professional fees have decreased from $21,348 for the quarter ended December 31, 2008 to $4,200 for the quarter ended December 31, 2009. General administrative expenses have increased and went from $85,452 for the quarter ended December 31, 2008 to $73,456 for the quarter ended December 31, 2009. The other administrative expenses for the last quarter of 2009 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.

Mining and Oil and Gas Projects

For the year ended December 31, 2009, the Company has spent $200,847 in exploration expenses.

Properties	**Undivided interest**	**Deferred expenses as at December 31, 2008**	**Expenses for 2009**	**Future goals**
	%	**$**	**$**	
Lindsay	100	346,865	119,395	Identify trends for gold dispersion and uranium prospection.
Cool Lake	100	29,993	8,564	Identify trends for gold dispersion and uranium prospection.
Rimouski	50	593	24,197	Put in place an exploration budget and strategy for oil and gas prospection and rare-element minerals for 2010.
Rimouski North	50	-	27,708	Put in place an exploration budget and strategy for oil and gas prospection and rare-element minerals for 2010.
Shawinigan	50	-	20,983	Put in place an exploration budget and strategy for oil and gas prospection and rare-element minerals for 2010.

Liquidity and Capital Resources

As at December 31, 2009, the Company had a working capital of $5,817,717 (December 31, 2008 - $5,174,270), which included cash and cash equivalents of $2,609,361 (December 31, 2008 - $4,296,385). The Company's liquidity ($2,609,361) with investments and marketable securities ($3,058,570) represents $0.48 per share.

As at December 31, 2009 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 and 290,000 common shares at $0.50 per share until July 2, 2014. The exercise of all the share purchase options represents an added potential financing of $1,193,500. At the date of this report, the exercise of 6,200,000 warrants and brokers' options outstanding represent a potential financing of $8,580,000. These warrants and brokers' options expire in May 2010, July 2010 and February 2011.

They have an exercise price between $0.70 and $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.

	2009	**2008**
	$	**$**
Leasing contract*	24,000	24,000
Management consulting fees charged by a company controlled by a director of the Company	72,000	54,000
Administrative service fees charged by a company controlled by a director of the Company	143,520	81,225
Administrative service fees charged by a company controlled by a director of the Company (included in share issue expenses as a reduction of share capital)	-	13,680
Consulting fees charged by a company controlled by two directors of the Company	-	50,000
Consulting fees charged by a company controlled by a director of the Company	-	8,000
	239,520	230,905

* 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 previous two most recently completed financial years:

	$	$
	2009	2008
Bank charges	5,246	5,580
Advertising and promotion	4,980	5,033
Office operations and facilities	29,206	24,188
Website	12,000	17,280
Traveling expenses	18,654	28,781
Consulting fees	-	58,000
Management and administrative services	215,520	194,340
Part XII.6 taxes	-	9,922
	285,606	343,124

This is the detail for professional fees for the previous two most recently completed financial years:

	$	$
	2009	2008
Audit and related services	32,673	38,393
Legal	11,819	54,821
	44,492	93,214

USE OF 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.

NEW ACCOUNTING POLICIES

Accounting standards newly adopted

Effective January 1, 2009, the Company adopted an amendment to an accounting standard related to financial instruments, one new accounting standard related to goodwill and intangible assets and two new abstracts related to credit risk and the fair value of financial assets and financial liabilities and mining exploration costs that were issued by the Canadian Institute of Chartered Accountants ("CICA"). The CICA amendment, new standard and abstracts are as follows:

Section 3862, "Financial Instruments – Disclosures"

On January 1, 2009, the Company adopted an amendment to Section 3862 which establishes additional disclosure requirements regarding the level in the fair value hierarchy in which fair value measurements are categorized for financial assets and financial liabilities measured in the consolidated balance sheet.

Section 3064, "Goodwill and Intangible Assets"

In February 2008, the CICA issued Section 3064, which replaces Section 3062, "Goodwill and Other Intangible Assets". This new Section provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This new Section specifically excludes mining activities related to prospecting, acquisition of mineral rights, exploration, drilling and mineral development from being considered as intangible assets, as existing Section 3061, "Property, Plant and Equipment", contains standards for the measurement, presentation and disclosure of mining properties. Adoption of this standard did not have any effect on the Company's consolidated financial statements.

EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities"

In January 2009, the CICA issued EIC-173, which provides guidance on how to take into account the credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. This Abstract applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2009. Adoption of this Abstract did not have any effect on the Company's consolidated financial statements.

EIC-174, "Mining Exploration Costs"

In March 2009, the CICA issued EIC-174, which provides guidance on the accounting and impairment review of exploration costs. This Abstract applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2009. Adoption of this Abstract did not have any effect on the Company's consolidated financial statements.

New accounting standards not yet adopted

Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling Interests"

In January 2009, the CICA issued sections 1601 and 1602, which together replace Section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Accounting Standard 27 (Revised), "Consolidated and Separate Financial Statements". The sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is evaluating the impact of the adoption of these new sections on its consolidated financial statements.

Section 1582, "Business Combinations"

In January 2009, the CICA issued Handbook Section 1582, which replaces Section 1581 of the same title. Section 1582 establishes standards for accounting for a business combination and provides the Canadian equivalent to International Financial Reporting Standard 3 (Revised), "Business Combinations". The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier application is permitted. The Company is evaluating the impact of the adoption of this new Section on the consolidated financial statements.

International Financial Reporting Standards ("IFRS")

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.

FINANCIAL INSTRUMENTS

The Company is exposed to various financial risks resulting from both its operations and its investment activities. The Company’s management manages its financial risks. The Company does not enter into financial instrument agreements including derivative financial instruments for speculative purposes. The Company’s main financial risk exposure and its financial risk management policies are as follows.

Interest rate risk
Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. Cash equivalents bear interest at fixed rates.

Other current financial assets and financial liabilities are not exposed to interest rate risk because they are non-interest bearing.

The Company does not use derivative financial instruments to mitigate its exposure to interest rate risk.

Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is subject to concentrations of credit risk through its cash and cash equivalents and accounts receivable. The Company reduces its credit risk by maintaining part of its cash and cash equivalents in financial instruments guaranteed by and held with a Canadian chartered bank. Investments in debt securities are made in quality corporate instruments with high credit ratings; therefore, the Company considers the risk of non-performance for investments in debt securities remote.

It is management’s opinion that the Company is not exposed to significant credit risk.

Currency risk
It is management’s opinion that the Company is not exposed to significant foreign exchange risk. As at December 31, 2009, all financial assets and financial liabilities are denominated in Canadian dollars, as are all its activities.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet the obligations associated with its financial liabilities. As at December 31, 2009, the Company had enough funds available to satisfy its obligations under accounts payable and accrued liabilities. All of the Company's financial liabilities have contractual maturities of less than three months and are subject to normal trade terms.

In the past few years, the Company has financed its liquidity needs primarily by issuing equity securities. As the Company has currently incurred operating losses, additional capital will be required to continue exploration activities on its properties.

Market risk

Fair value

The fair value of financial instruments is summarized as follows:

	2009		2008	
	Carrying value $	**Fair value $**	**Carrying value $**	**Fair value $**
Financial assets				
Held for trading				
Cash and cash equivalents	2,609,361	2,609,361	4,296,385	4,296,385
Marketable securities	1,008,570	1,008,570	-	-
Investments	290,000	290,000	91,716	91,716
Available for sale				
Investments	1,760,000	1,760,000	760,000	760,000
Loans and receivables				
Interest income receivable	-	-	22,883	22,883
Financial liabilities				
Other liabilities				
Accounts payable and accrued liabilities	35,482	35,482	49,258	49,258

Fair value estimates are made at the balance sheet date, based on relevant market information and other information about financial instruments.

Fair value hierarchy

The following table summarizes the fair value hierarchy under which the Company's financial instruments are valued.

Level 1 includes unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 includes inputs other than quoted prices included in Level 1 that are observable for the assets or liability, either directly or indirectly; and Level 3 includes inputs for the asset or liability that are not based on observable market data. For those fair value measurements included in Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances has been provided.

	Assets measured at fair value As at December 31, 2009			
	Level 1 $	Level 2 $	Level 3 $	Total $
Held for trading				
Cash on hand and bank balances	608,168	-	-	608,168
Money market funds	2,001,193	-	-	2,001,193
Marketable securities	-	1,008,570	-	1,008,570
Investments in warrants	-	-	290,000	290,000
	2,609,361	1,008,570	290,000	3,907,931
Available for sale				
Investments in common shares	1,760,000	-	-	1,760,000

	Reconciliation of long-term investments measured at fair value based on Level 3 inputs As at December 31, 2009
	$
Balance – beginning of year	91,716
Change in fair value	198,284
Balance – end of year	290,000

Risk and Uncertainties

The securities of the Company are highly speculative. In evaluating the Company, it is important to consider that it is a resources exploration enterprise 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 it unless the investor is capable of sustaining an economic loss of the entire investment. All costs have been funded through equity. 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 its properties will only follow after 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 development of commercial mineable mineralized deposits.

Most exploration projects do not result in the discovery of commercially mineralized deposits. The commercial viability of exploiting any precious or base metal deposit is dependant on a number of factors including infrastructure and governmental regulation, in particular those relating to environment, taxes, and royalties. No assurance can be given that minerals will be discovered of sufficient quality, size and grade on any of the Company's properties to justify a commercial operation.

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 regulations, 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 Company has adopted environmental practices designed to ensure that it continues to comply with or exceed 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 operating 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 its name 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 Canada Business Corporations Act, to which the Company is subject, requires the directors and officers of the Company to act honestly and in good faith with a view to the best interests of the Company. 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.

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 labor; (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 by 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, labor 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.

Also, no assurance can be made that Canada Revenue Agency and provincial agencies will agree with the Company's characterization of expenditures as Canadian exploration expenses or Canadian development expense or the eligibility of such expenses as Canadian exploration expense under the Income Tax Act (Canada) or any provincial equivalent.

Precious and base metal prices

The price of precious and base metal prices can fluctuate widely and is affected by numerous factors including demand, inflation, strength of the US dollar and other currencies, interest rates, gold sales by the central banks, forward sales by producers, global or regional political or financial events, and production and cost levels in major producing regions. In addition, prices are sometimes subject to rapid short-term changes because of speculative activities.

Even if the Company discovers commercial amounts of metals on its properties, it may not be able to place the property into commercial production if precious and base metal prices are not at sufficient levels

Need for Additional Financing

Currently, exploration programs are pursued by the Company with the objective of establishing mineralization of commercial quantities. The Company may fund the proposed programs 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.

Key Employees

The Company is dependent on a relatively small number of key directors and officers: Martin Dallaire and Sylvain Champagne. Loss of any one of these persons could have an adverse affect on the Company. The Company does not maintain “key-man” insurance in respect of any of its management.

Lack of operating profit

The Company was incorporated on February 24, 1987 and since incorporation, has not realized net income except for 2008 nor paid dividends. The Company's properties are in the exploration stage and to date none of them have a proven ore body.

The Company does not have a history of earnings or the provision of return on investment, and in future there is no assurance that it will produce revenue, operate profitably or provide a return on investment.Variations in annual and quarterly loss and loss per shares are affected by administration costs and the write-down or write-off of mineral property carrying costs. It is anticipated that the Company will continue to experience operating losses for the foreseeable future. There can be no assurance that the Company will ever achieve significant revenues or profitable operations.

Competition

The mining 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 interests as well as for recruitment and retention of qualified employees.

Uninsured Hazards

Hazards such as unusual geological conditions are involved in exploring for and developing mineral deposits. The Company may become subject to liability for pollution or other hazards, which cannot be insured against or against which the Company may elect not to insure because of high premium costs or other reasons. The payment of any such liability could result in the loss of Company assets or the insolvency of the Company.

OTHER MD&A REQUIREMENTS

Share data

As at April 30, 2010, the Company had the following:

Issued and outstanding- 11,783,069 shares

The Company defines its capital as the shareholder's equity.

The Company's capital management objectives are to:

- have sufficient capital to be able to meet the Company's mining properties exploration and mining development plan in order to ensure the growth of the activities.
- have sufficient cash to fund the exploration expenses and investing activities and the working capital requirements.

As at December 31, 2009, the capital of the Company consists of shareholder's equity amounting to $7,316,296.

Warrants and brokers' options outstanding:

Expiry date	Number of warrants and brokers' options outstanding	Exercise price ($)
May 2010(1)	650,000	0.70
July 2010 (2)	5,400,000	1.50
February 2011	150,000	1.50
	6,200,000	

(1) In May 2009, the Company has announced the extension of the expiry date of these warrants from May 2009 to May 2010.

(2) These include 400,000 brokers' options which expire in July 2010. Each brokers' option entitles the holder to subscribe for an equal number of units in consideration of $1.00, composed of one share and one warrant at a price of $1.50.

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
	995,000	

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.

April 30, 2010.

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

(S) Sylvain Champagne
Sylvain Champagne, Chief Financial Officer