X-TERRA RESOURCES CORPORATION
(the "Company")

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

FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2008
(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 years ended December 31, 2007 and 2006 and the related notes thereto. It was prepared in accordance with Regulation 51-102A1 and was approved by our Company's Board of Directors. 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 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 properties in which the Company has earned or in the future may earn an interest. 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 August 26, 2008.

OVERALL PERFORMANCE

Description of Business

X-Terra has been very active in the past few months, the new management in place brought; Shale gas projects, a substantial 5M$ financing (July 2008), experienced senior members on board (Richard Patricio, Sheldon Inwentash and Martin Dallaire) and finally appointed Mr. Sylvain Champagne as the new chief financial officer of the Company.

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.

PROPERTIES

1. Energy 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 (1,534 hectares) in Villedieu Township. The Villedieu/Lindsay project is an early stage exploration project with historical uranium and rare-earth-element 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 $64US/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. Aurizon Mines Ltd. 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.

The 2007 exploration program consisted of 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.

Gold:

- One sample returned 1.22 grams per tonne (g/t);
- Four samples over 0.2 g/t or 200 parts per billion;
- One sample between 100 to 200 ppb;
- Eighteen samples between 21 to 50 ppb.

To view a location map of the 1,490-hectare claim blocks, please visit the Company’s website.

Cool Lake Property

The Cool Lake property is located 5 km southeast of Fieldex Exploration’ high-grade uranium, silver and lead discovery in northwestern Quebec. Fieldex sampled up to 3.64% U3O8, 29.8 grams per tonne of silver and 1.47% of lead in the first quarter of 2008.

The 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.

Although main focus of this project is to find economic grade uranium, there is also high potential for rare-element minerals that contain tantalum, niobium and possibly cesium. Tantalum, in particular, is a valuable commodity with a wide variety of industrial applications, most notably in the computer and steel sectors.

2. Shale gas properties

Rimouski, Rimouski North and Shawinigan Properties

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.

X-Terra Resources’ management has decided to position itself in the Shale gas play in Québec and acquired three (3) large properties. An exhaustive compilation is currently in progress and a 50/50 farm out deal has been signed in June 2008 with a well known oil and gas networked partner/operator named Brownstone Ventures Inc. X-Terra' strategy is to be very aggressive in the coming months by acquiring more prospective land in the St-Laurent Lowlands.

Liquidity and Capital Resources

As at June 30, 2008, the Company had stock options outstanding allowing for the purchase of up to 115,000 common shares at $1.10 per share until June 2012 and 500,000 common shares at $1.90 per share until June 2013. As at June 30, 2008, the Company had a working capital of $546,470 (March 31, 2008: $381,956), which included cash of $593,942 (March 31, 2008: $439,261). However, the Company has reserved an amount of $251,571 for its exploration activities to be conducted in Canada before December 31, 2008 with regards to the transfer of exploration expenditures to the subscribers of its flow-through shares underwriting completed on October 3, 2007.

Even if the Company has closed a private financing of $5,000,000 in July 2008, the Company has limited financial resources and its ability to continue operating is always dependent on management's ability to secure financing. Failure to obtain additional financing could result in limited exploration work. 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. There can be no assurance that the Company will be successful in raising the future required financing. The management team could pursue 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 interim financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern and these adjustments could be material.

RESULTS OF OPERATIONS

Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted for the period ended June 30, 2008.

Mineral Projects

For the three months period ended June 30, 2008, the Company expended $9,894 in deferred exploration expenses.

Corporate

Selected administrative expenses:

	3 MONTHS ENDED JUNE 30, 2008 ($)	3 MONTHS ENDED JUNE 30, 2007 ($)	6 MONTHS ENDED JUNE 30, 2008 ($)	6 MONTHS ENDED JUNE 30, 2007 ($)
Insurance	3,575	16,000	5,958	16,000
Professional fees	41,847	114,982	44,459	115,754
General administrative expenses	103,948	38,459	139,673	42,412
Shareholder's communication	6,324	1,497	6,324	3,030
Transfer agent and regulatory fees	1,239	24,457	7,125	31,382
Stock-based compensation	129,455	35,970	147,440	35,970
Depreciation of fixed assets	623	-	623	-
Total administrative expenses	287,011	231,365	351,602	244,548

During the period, the Company incurred administrative expenses of $287,011 (comparative period 2007: $231,365). The amount includes Stock-based compensation of $129,455 compared to $35,970 for the same quarter of 2007. The professional fees decrease from $114,982 for the second quarter of 2007 to $41,847 for the second quarter of 2008 mainly because the lawyer fees come from the changing in management and the cost for a due diligence. The general administrative expenses increase from $38,459 to $103,948 mainly because new activities in the Company which cost higher for management and administrative fees.

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. The $129,455 (comparative period 2007: $35,970) represents the fair value of the vested portion of options for the period.

SUMMARY OF QUARTERLY AND ANNUAL INFORMATION

Summary of Quarterly Results

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

Period	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Years	2008	2008	2007	2007	2007	2007	2006	2006
Current assets	618,524	457,584	488,484	238,055	357,382	8,385	14,097	11,542
Mining properties	989,757	976,521	975,864	975,500	544,500	-	-	-
Current liabilities	72,054	75,628	51,222	37,354	70,311	236,022	227,641	289,427
Shareholders' Equity (Deficiency)								
Capital stock	23,732,912	23,195,520	23,195,520	23,117,511	22,712,011	21,813,127	21,813,127	21,813,128
Contributed surplus/warrants	1,004,225	1,061,964	1,043,979	532,794	496,824	460,854	460,854	460,853
Deficit	(23,124,202)	(22,839,872)	(22,778,943)	(22,827,604)	(22,732,264)	(22,501,618)	(22,487,525)	(22,551,866)
Gain (loss) for the period	(284,330)	(60,929)	48,661	(95,340)	(230,646)	(14,093)	64,342	(8,861)
Working capital (deficit)	546,470	381,956	437,262	200,701	287,071	(227,637)	(213,544)	(277,885)
Basic and diluted income (loss) per share	(0.04)	(0.00)	0.01	(0.02)	(0.06)	(0.00)	0.02	(0.00)

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, 2007 ($)	December 31, 2006 ($)	December 31, 2005 ($)
Revenue	-	-	-
Income (loss)	(291,418)	54,332	(1,465,324)
Income (loss) per share	(0.06)	0.01	(0.40)
Total assets	1,511,778	14,097	32,080
Total long-term financial liabilities	-	-	-
Cash dividends declared	-	-	-

Variations in annual and quarterly loss and loss per share are affected by administration costs and by the write-down or write-off of mineral property carrying costs in 2005. 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-off relating to the project(s) abandoned during the year. Resource asset 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 intention presently of paying dividends on its common shares. The Company anticipates that all available funds will be used to finance the growth of its business.

CONTRACTUAL OBLIGATIONS

The Company is committed to incurring Canadian exploration expenses of $320,000 by December 31, 2008, with regard to the transfer of these expenditures to the subscribers of its flow-through share underwriting completed on October 3, 2007. As at June 30, 2008, the amount remaining to be incurred against this commitment is $251,571.

X-Terra has entered into an assignment agreement with Brownstone Ventures Inc. (TSXV: BWN), whereby Brownstone will acquire a 50% interest in X-Terra's exploration licences for petroleum and natural gas on its shale gas properties (Rimouski, Rimouski North and Shawinigan properties) located in the Québec Lowlands (collectively, the "Licences"). In payment, Brownstone Ventures will issue 2,000,000 common shares and 2,000,000 common share purchase warrants to X-Terra. Each warrant will entitle X-Terra to purchase one common share of Brownstone at a price of $2.00 for a period of two years. Brownstone will be the operator of an exploration program for the territory covered by the Licences. The assignment agreement is subject to certain conditions, including confirmation of the granting of the Licences by the Ministère des Ressources Naturelles et de la Faune of the Province of Québec to X-Terra, and approval by the TSX Venture Exchange of the assignment of the 50% interest and the issuance by Brownstone to X-Terra of the 2,000,000 shares and warrants in payment.

RELATED PARTY TRANSACTIONS

The Company is engaged in a lease contract for an office in Rouyn-Noranda with a company controlled by a director and an officer of X-Terra Resources Corporation. During the period, the Company incurred $6,000 for this leasing (comparable period of 2007: $0). The Company incurred $18,000 as management consultant fees from a company controlled by a director of X-Terra (comparable period of 2007: $0). Also, the Company incurred $16,050 in administrative services from a company controlled by an officer of X-Terra (comparable period of 2007: $5,032). The Company incurred no amount as professional fees from a company controlled by a director of X-Terra (comparable period of 2007: $4,657).

SUBSEQUENT EVENTS

On July 11th, 2008 the Company has completed a private placement of 5,000,000 units at a price of $1.00 per unit, for gross proceeds of $5,000,000. Each of the units consists of one common share and one common share purchase warrant. Each warrant entitles its holder to purchase one additional common share of X-Terra at a price $1.50 for two years. PowerOne Capital Markets Limited acted as agent for the private placement. In connection with the private placement, X-Terra paid a cash commission to PowerOne in an amount equal to 8% of the gross proceeds of the private placement, and issued compensation options to PowerOne, entitling it to purchase up to 400,000 units at a price of $1.00 per unit for a period of two years after the closing of the private placement. Each of the units will be comprised of one common share and one common share purchase warrant. Each warrant will entitle its holder to purchase one additional common share of X-Terra at a price $1.50 for two years from the closing of the private placement.

GENERAL ADMINISTRATIVE EXPENSES AND PROFESSIONAL FEES

This is the detail for general administrative expenses for the three months period ended June 30, 2008 :

	$
Bank charges	84
Advertising and promotion	3,301
Office operations and facilities	6,920
Website	7,875
Traveling expenses	12,488
Management and administrative services	73,280
	103,948

This is the detail for professional fees for the three months period ended June 30, 2008 :

	$
Legal	9,487
Audit and related fees	32,360
	41,847

USE OF ESTIMATES

The preparation of financial statements in conformity with 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 revenues 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 mineral properties and deferred expenditures, future income tax and valuation of stock-based compensation and warrants. Actual results could differ from those estimates.

NEW ACCOUNTING STANDARDS

On January 1, 2008, the Company adopted new accounting standards related to general standard of financial statement presentation, capital disclosure and financial instruments that were issued by the Canadian Institute of Chartered Accountants (“CICA”). The new CICA standards are as follows:

Section 1400, *General Standard of Financial Statement Presentation*

This section specifies requirements to assess an entity’s ability to continue as a going concern and disclose any material uncertainties that cast doubt on its ability to continue as a going concern. The Company disclosure reflects such assessment.

Section 1535, *Capital Disclosures*

This section specifies the disclosure of information that enables users of an entity’s financial statements to evaluate its objectives, policies and processes for managing capital such as qualitative information about its objectives, policies and processes for managing capital, summary quantitative data about what the entity manages as capital, whether it has complied with any capital requirements and, if it has not complied, the consequences of non-compliance. Disclosure requirements pertaining to this section are contained in note 8 of the Company’s interim consolidated financial statements ended June 30, 2008.

Section 3862, *Financial Instruments Disclosures*
Section 3863, *Financial Instruments Presentation*
These sections replace Section 3861, *Financial Instruments Disclosure and Presentation*, revising and enhancing disclosure requirements while carrying forward its presentation requirements. These new sections place increased emphasis on disclosure about the nature and extent of risk arising from financial instruments and how the entity manages those risks. Disclosure requirements pertaining to this section are contained in note 13 of the Company's interim consolidated financial statements ended June 30, 2008.

OTHER MD&A REQUIREMENTS

Share data

As at August 26, 2008, the Company had the following:
Issued and outstanding- 12,245,069 shares

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

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.

Warrants outstanding:

Expiry date	Number of warrants outstanding	Exercise price ($)
May 2009	650,000	0.70
October 2009	133,333	0.75
October 2009	426,666	1.00
July 2010 *	5,400,000	1.50
	6,609,999	

* These include 400,000 compensation options which expire in July 2010. Each compensation 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	115,000	1.10
June 2013	500,000	1.90
	615,000	

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.

Trends

The Company's financial success is dependent on 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 on 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 its 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, labor disruptions, flooding, explosions, cave-ins, landslides and the inability to obtain suitable or adequate machinery, equipment or labor are some of the risks involved in the operation of a mine 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 on 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 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 approval of new mines on federal lands in Canada is subject to detailed review through a clearly established public hearing process, pursuant to the 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 their 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 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 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.

<u>Uncertainty of Ownership Rights and Boundaries of Resource Properties</u>
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.

<u>Potential Conflicts of Interest</u>
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.

<u>Indemnity and Protection of Directors, Officers and Employees</u>
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.

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 it 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 strengths 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 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.

Uncertainty of Markets for Metals

The global market price for metals is influenced by numerous factors beyond the Company's control. 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.

Need for Additional Financing

Currently, exploration programs and feasibility studies are pursued by the Company with the 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, 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.

Price Fluctuations: Share Price Volatility
In recent years, the international securities markets have experienced high levels 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.

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.

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 administration costs and the write-down or write-off 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 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management has designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and preparation of the financial statements for external purposes in accordance with Canadian generally accepted accounting principles. As at June 30, 2008, the Chief Executive Officer and Chief Financial Officer evaluated the design of the company's internal control over financial reporting. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that design of internal control over financial reporting was effective as at June 30, 2008 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

There have been no changes in the Company's internal control over financial reporting that occurred during the most recent completed financial years ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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, 2008. Management has concluded that the disclosure controls as at June 30, 2008 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.

NATIONAL INSTRUMENT 52-109 - CERTIFICATES OF ANNUAL FILING

The Chief Executive Officer and Chief Financial Officer have signed certificates that, among things, report on the design and effectiveness of disclosure controls and procedures and the design of internal controls over financial reporting.

The Company's management has a process to evaluate the effectiveness and the design of the aforementioned controls and procedures, and is satisfied, as at June 30, 2008, that these are adequate for ensuring that complete and reliable financial information is produced.

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).

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. Factors that could cause actual results to differ materially from those in forward-looking statements include, but are not limited to, operating, exploration and geological successes, continued availability of capital and financing, and general economic, environmental, industry, market or business conditions, volatility and sensitivity to market metal prices. 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.