

X-TERRA RESOURCES CORPORATION
(an exploration stage company)
(the “Company” or “X-Terra”)

MANAGEMENT DISCUSSION AND ANALYSIS
(“MD&A”)

FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2011
(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 unaudited condensed interim consolidated financial statements for the nine-month period ended September 30, 2011 and the Company’s audited consolidated financial statements for the years ended December 31, 2010 and 2009 and the related notes thereto. The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (“IFRS”), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in the unaudited condensed interim consolidated financial statements. In this MD&A, the term “Canadian GAAP” refers to Canadian generally accepted accounting principles before the adoption of IFRS. The unaudited condensed interim consolidated financial statements for the nine months ended September 30, 2011 have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 and IFRS 1, including comparative figures. The audited financial statements have been prepared in accordance with Canadian GAAP. 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 four directors which three of them 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 November 24, 2011.

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

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

Gas shales: Area participants, like Questerre Energy Corp., continue to make progress confirming the potential for significant oil and gas in Quebec. X-Terra Resources and Brownstone Ventures’ Québec Oil and Gas Licenses cover a total of over 300,000 hectares in Quebec. Actually, the surrounding communities of the St-Laurent river in the Province of Quebec are reluctant to gas shales exploration on their territory but we were pleased to learn, in June 2011, that the Ministry

of Natural Resources acknowledged this impact and decided to extend the term of our exploration licenses up to three years. The Company is actively looking to add new advanced-stage mineral projects in its portfolio.

PROPERTIES

1. Mining Properties

Lindsay Property (25 claims)

The 100% owned Lindsay rare earth elements (REE) 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. A total of \$207,075 has been spent on the property in 2010 and \$11,250 for the first three quarters of 2011. The Lindsay project is a mid-stage exploration project with historical uranium and rare-earth-elements occurrences and economic potential for these commodities.

The property is overlain 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 \$52US/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. In 2010, a total of three diamond drill holes totalling 358 metres have been done on the Lindsay property. More than 110 samples were sent to a lab for assaying; however, no economic results were obtained from this drilling campaign. The maps are available on the Company's website at www.xterraresources.com.

Other projects

The Company is continuously looking to add resources base projects in the Company.

2. Shale gas properties

Consistent with the BAPE recommendations, the government of Québec commissioned a strategic environmental assessment ("SEA") for shale gas development. A multi-stakeholder committee was appointed to conduct the SEA and new regulations were enacted to govern operations during this period. The announcement of the SEA materially impacted our timeline for exploration of the Utica. During this time, the government mandated limited activities while it increases its understanding of the industry and develops the appropriate regulations. We were pleased to learn that the Ministry of Natural Resources acknowledged this impact and extended the term of our exploration licenses up to three years. Environmental assessments are common for large scale resource projects, including shale gas development in other jurisdictions. While we appreciate the importance of assessing the local impacts, we are hopeful that, rather than recreating the proverbial wheel, the committee will leverage the growing body of research that corroborates the established industry practices to safely develop shale gas.

Rimouski and Rimouski North Properties (5 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.

A compilation has been completed and a 50/50 farm out deal has been finalized with well known oil and gas networked partner/operator named Brownstone Ventures Inc (“Brownstone”). In 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 these shares but all warrants have expired.

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

Trois-Pistoles property (8 permits)

The Company with its partner Brownstone Ventures Inc. have acquired 157,570 hectares of additional land in the St-Laurent Lowlands between Rimouski and Riviere-du-Loup for the potential in oil and gas. An airborne magnetic survey flew over the Trois-Pistoles project by the Quebec Natural Resources department is now available and will be used for the technical compilation currently in progress.

SUMMARY OF QUARTERLY INFORMATION

Summary of Quarterly Results

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

Period	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4 ⁽¹⁾
Year	2011	2011	2011	2010	2010	2010	2010	2009
Revenues	15,274	16,357	15,955	71,758	70,195	62,689	78,561	35,482
Income (loss) for the period	(75,948)	(117,933)	(81,070)	(96,360)	(725,790)	(198,989)	(315,309)	145,308
Basic and diluted income (loss) per share	(0.01)	(0.01)	(0.01)	(0.01)	(0.06)	(0.02)	(0.03)	0.01
Total assets	5,308,963	6,391,484	7,252,911	6,960,516	6,104,903	5,983,187	6,519,548	7,351,778

(1) Information for 2009 is presented in accordance with Canadian GAAP and was not required to be restated to IFRS.

Operating activities and results

During the three-month period ended September 30, 2011, the Company registered a net loss of \$75,948 in comparison with the net loss of \$725,790 for the same quarter in 2010. The main difference is due to the fact that for the third quarter of 2010, the Company has recorded an expense of \$660,000 regarding the extension of 5,000,000 warrants (nil for the same quarter of 2011). The Company has recorded, for the quarter ended September 30, 2011, interest income of \$15,274 (\$14,683 for the quarter ended September 30, 2010), and unrealized gain (loss) on investments of \$1,460 ((\$2,000) for the quarter ended September 30, 2010). The Company’s administrative expenses for the quarter ended September 30, 2011 are at \$92,682 (\$78,473 for the quarter ended September 30, 2010). Professional fees have decreased from \$3,360 for the quarter ended September 30, 2010 to \$2,693 for the quarter ended September 30, 2011. For the first three quarters of 2010 and 2011, professional fees have increased from \$35,380 to \$43,762 mainly because of professional fees incurred in 2011 regarding IFRS rules. Office and general expenses have increased and went from \$11,882 for the quarter ended September 30, 2010 to \$17,137 for the quarter ended September 30, 2011 mainly due to the fact that the Company has leased temporary space in Montreal. The Company recorded no stock-based compensation for the quarter ended September 30, 2010 against no amount for the same quarter in 2011. The other administrative expenses 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.

Financing activities

No financing has been raised during the third quarter of 2011 and the Company does not expect anyone in the near future.

Investing activities

During the third quarter of 2011, the Company had \$12,617 in acquisition of mining and oil and gas properties and (\$24,180) in deferred exploration expenses, mainly due to the agreement with Brownstone.

Liquidity and working capital

As at September 30, 2011, the Company had a working capital of \$3,634,179 (December 31, 2010 - \$5,286,250), which included cash and cash equivalents of \$1,788,618 (December 31, 2010 - \$2,133,942). The Company's liquidity (\$1,788,618) with investments and marketable securities (\$1,670,235) represents \$0.29 per share.

The exercise of the 1,175,000 outstanding stock options in date of this report represents an added potential financing of \$1,256,500. These options expire between 2012 and 2020 and have an exercise price between \$0.35 and \$1.90.

At the date of this report, the exercise of 5,000,000 warrants outstanding represents a potential financing of \$7,500,000. These warrants expire in July 2013 and they have an exercise price of \$1.50.

PROJECTED OPERATIONS

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

OFF-BALANCE SHEET ARRANGEMENT

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

RELATED PARTY TRANSACTIONS

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

	2011	2010
	\$	\$
Leasing contract*	6,000	6,000
Management consulting fees charged by a company controlled by a director of the Company	18,000	18,000
Administrative service fees charged by a company controlled by a director of the Company	32,235	28,305
	<u>56,235</u>	<u>52,305</u>

* 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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. There is a full disclosure and description of the Company's critical accounting policies and critical accounting estimates in the interim consolidated financial statements for the three months ended September 30, 2011.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Effective January 1, 2011 Canadian publicly listed entities are required to prepare their financial statements in accordance with IFRS for interim and annual periods. Due to the requirement to present comparative financial information, the effective transition date is January 1, 2010. The three-months ended September 30, 2011 is the Company's third reporting period under IFRS.

The IFRS project team has completed the conversion implementation. Post-implementation will continue in future periods.

A detailed discussion of accounting policies under IFRS is included in Note 2 and the quantitative impact of adopting IFRS is further discussed in Note 5 of the unaudited condensed interim consolidated financial statements for September 30, 2011.

As a result of the accounting policy differences on conversion from Canadian GAAP to IFRS, the Company has recorded an increase in the shareholder's equity of \$26,267 as at January 1, 2010 with the corresponding amount in the Deficit, representing the impact of Flow-through shares.

Financial Statement Presentation Changes

The transition to IFRS has resulted in consolidated financial statement presentation changes in the consolidated financial statements, most significantly on the consolidated statement of loss and the consolidated statements of changes in equity. There were no significant changes to the Company's consolidated statements of cash flow as a result of the implementation of IFRS.

The following is a summary of the significant changes to the Company's consolidated statement of loss:

- Expenses by nature — the Company's consolidated statement of loss presents expenses by nature. Accordingly, line item details previously reported as separate items on the consolidated statement of loss have been modified. These changes are reclassifications within the consolidated statement of loss so there is no net impact to the Company's reported net loss as a result of these changes.

Controls and Procedures

The conversion to IFRS does not have a significant impact on the Company's internal controls (including information technology systems), and accounting processes. However, the extent of change in accounting framework has required the Company to update its internal controls, disclosure controls and procedures to ensure they are appropriately designed and operated effectively for reporting under IFRS. These include: training communication—to ensure IFRS knowledge is transferred from subject matter experts to the entire organization; documentation—to ensure corporate accounting policies are updated for IFRS, and transitional analysis and decisions are adequately supported; and review—to ensure segregation of duties in the review and approval of IFRS information from preparer to management, and ultimately by the Audit Committee. As a result of these incremental internal control enhancements, the impact of the conversion from Canadian GAAP to IFRS on the Company's risk management or other business activities is reduced.

Business Activities and Key Performance Measures

The Company is not subject to any financial covenants or key ratios, therefore the transition had no impact in this regard.

Information Technology and Systems

The IFRS transition project did not have a significant impact on the Company's information systems for the convergence periods. Significant changes are also not expected in the post-convergence periods.

Ongoing Activities

The completion of the Implementation and commencement of Post-Implementation phases will involve continuous monitoring of the changes implemented to date to ensure completeness and accuracy of IFRS financial reporting. In particular, there may be additional new or revised IFRSs or IFRICs in relation to consolidation, joint ventures, financial instruments, hedge accounting, discontinued operations, leases, employee benefits, revenue recognition and stripping costs in the production phase of a surface mine. The Company also notes that the International Accounting Standards Board is currently working on an extractive industries project, which could significantly impact the Company's financial statements primarily in the areas of capitalization of exploration costs and disclosures. There are processes in place to ensure that potential changes are monitored and evaluated. The impact of any new IFRSs and IFRIC Interpretations will be evaluated as they are drafted and published.

Risk Factors

The risk factors are discussed in the Company's most recent Annual Information Form on file with Canadian provincial regulatory authorities, available at www.sedar.com.

OTHER MD&A REQUIREMENTS

Share capital

As at November 24, 2011, the Company had the following:

Issued and outstanding- 11,783,069 shares

Warrants outstanding:

<u>Expiry date</u>	<u>Number of warrants outstanding</u>	<u>Exercise price (\$)</u>
July 2013	<u>5,000,000</u>	1.50

Stock options outstanding:

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

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.

November 24, 2011.

(S) Martin Dallaire

Martin Dallaire, President and Chief Executive Officer

(S) Sylvain Champagne

Sylvain Champagne, Chief Financial Officer