X-TERRA RESOURCES CORPORATION

(an exploration stage company)

(the “Corporation” or “X-Terra”)

MANAGEMENT DISCUSSION AND ANALYSIS
(“MD&A”)

FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2012
(the “Period”)

The following management’s discussion and analysis of X-Terra’s operating results and financial position follows rule 51-102A of the Canadian Securities Administration regarding continuous disclosure for reporting issuers. It is a complement and supplement to the Corporation’s unaudited condensed interim consolidated financial statements and related notes for the nine-month period ended September 30, 2012 and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2011 and the related notes thereto. The unaudited condensed interim consolidated financial statements for the period ended September 30, 2012 have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) applicable to the preparation of financial statements, including IAS 34 - Interim Financial Reporting, including comparative figures. 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 Corporation 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, three of whom 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 Corporation 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 Corporation’s financial statements.

DATE

This MD&A is prepared as of November 21, 2012.

OVERALL PERFORMANCE

Description of Business

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

The Corporation 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 Corporation has earned or in the future may earn an interest.

The Corporation 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.

The Corporation is actively looking to add new advanced-stage mineral projects in its portfolio. The Corporation has completed a National Instrument 43-101 technical report on its Lindsay rare earth property in Kipawa. Area participants, like Matamec Explorations and Fieldex Exploration continue to make progress confirming the potential for significant discoveries in the Kipawa alcalin complex.

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.

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. 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 April 2012, Fieldex Exploration reports encouraging rare earth results on their Lac Sairs project, they drilled 19.55 metres of 1.10% TREO+Y2O3 north of the Lindsay property. In 2010, a total of three diamond drill holes totaling 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 Lindsay project is a mid-stage exploration project with historical uranium and rare-earth-elements occurrences and economic potential for these commodities. The Corporation has completed a National Instrument 43-101 technical report on its Lindsay rare earth property in Kipawa. Area participants, like Matamec Explorations and Fieldex Exploration continue to make progress confirming the potential for other significant discoveries in the Kipawa alcalin complex.

Other projects

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

2. Shale gas properties

X-Terra Resources and Brownstone Energy inc.'s Quebec Oil and Gas Licences cover a total of over 250,000 hectares in Quebec. Actually, the surrounding communities of the St-Lawrence river in the Province of Quebec are reluctant to gas shales exploration on their territory. 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, in June 2011, that the Ministry of Natural Resources acknowledged this impact and extended the term of our exploration licences 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 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 licences)

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 a well-known oil and gas networked partner/operator named Brownstone Energy Inc ("Brownstone"). In 2008, X-Terra entered into an agreement with Brownstone pursuant to which Brownstone acquired a 50% interest in the exploration licences 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 but all warrants have expired. X-Terra and its partner Brownstone Energy 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 2010, in order to renew the licences of Rimouski and Rimouski North properties which have good potential targets. In 2011, little work has been done but all reports have been written and filed with the Ministry of Natural Resources regarding work done in 2010 and 2011. The maps are available on the Corporation's website at www.xterraresources.com.

Trois-Pistoles property (8 licences)

The Corporation with its partner Brownstone Energy 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 which was flown over the Trois-Pistoles project by the Quebec Natural Resources department is now available. In 2011, little work has been done but all reports have been written and filed with the Ministry of Natural Resources regarding work done in 2010 and 2011. The maps are available on the Corporation's website at www.xterraresources.com.

SUMMARY OF QUARTERLY INFORMATION

Summary of Quarterly results

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

Period	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Year	2012	2012	2012	2011	2011	2011	2011	2010
Revenues	14,576	14,881	14,992	16,061	15,274	16,357	15,955	71,758
Loss for the period	(80,780)	(91,723)	(72,519)	(246,429)	(75,948)	(117,933)	(81,070)	(96,360)
Basic and diluted loss per share	(0.01)	(0.00)	(0.01)	(0.02)	(0.01)	(0.01)	(0.01)	(0.01)
Total assets	4,796,293	4,863,252	5,201,747	5,338,652	5,308,963	6,391,484	7,252,911	6,960,516

X-Terra has not since the date of its incorporation, declared or paid any dividends on its Common Shares. For the foreseeable future, X-Terra anticipates that it will retain future earnings and other cash resources for the operation and development of its business.

Operating activities and results

During the three-month period ended September 30, 2012, the Corporation registered a net loss of $80,780 in comparison with the net loss of $75,948 for the same quarter in 2011. The Corporation has recorded, for the quarter ended September 30, 2012, finance income of $14,576 ($15,274 for the quarter ended September 30, 2011), and unrealized loss on marketable securities and investments at fair value through profit or loss of $2,565 (gain of $1,460 for the quarter ended September 30, 2011). The Corporation's administrative expenses for the quarter ended September 30, 2012 are at $92,791 (92,682 for the quarter ended September 30, 2011). Professional fees have increased from $2,693 for the quarter ended September 30, 2011 to $10,070 for the quarter ended September 30, 2012 due to a special development corporate fee. Office and general expenses have decreased and went from $17,137 for the quarter ended September 30, 2011 to $9,852 for the quarter ended September 30, 2012, mainly due to the fact that the Corporation has stopped leasing temporary space in Montreal. Consulting fees have decreased and went from $53,735 for the quarter ended September 30, 2011 to $49,080 for the quarter ended September 30, 2012. Conference and promotion expenses have decreased and went from $8,459 for the quarter ended September 30, 2011 to $3,613 for the quarter ended September 30, 2012 and shows low promotion activity. Share-based compensation amount is $9,900 for the quarter ended September 30, 2012 in comparison of no amount for the quarter ended September 30, 2011. The other administrative expenses for the third quarter of 2012 remained relatively stable, are cyclical and may fluctuate according to the events, which are not always predictable.

Office and general expenses

This is the detail for office and general expenses for the three-month periods ended September 30:

	$ 2012	$ 2011
Office leasing	6,285	11,985
Insurances	2,070	2,062
Office operations and facilities	1,497	3,090
	9,852	17,137

Financing activities

No financing has been raised during the third quarter of 2012 and the Corporation does not expect anyone in the near future.

Investing activities

During the third quarter of 2012, the Corporation had a cash outflow of $4,760 in acquisition of mining and oil and gas properties and a cash outflow of $13,337 in deferred exploration expenses.

Liquidity and working capital

As at September 30, 2012, the Corporation had a working capital of $3,092,975 (December 31, 2011 - $3,660,068), which included cash and cash equivalents of $1,584,174 (December 31, 2011 - $1,858,836). The Corporation’s liquidity ($1,584,174) with investments and marketable securities ($1,019,555) represents $0.22 per share.

The exercise of the 1,020,000 outstanding stock options at the date of this report represents an added potential financing of $1,083,500. These options expire between 2013 and 2022 and have an exercise price between $0.25 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 Corporation 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 Corporation.

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:

	2012	**2011**
	$	**$**
Leasing contract*	6,000	6,000
Management consulting fees charged by a company controlled by a director of the Corporation	18,000	18,000
Administrative consulting fees charged by a company controlled by a director of the Corporation	31,080	32,235
	55,080	56,235

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS

There were no changes to the accounting policies applied by the Corporation to each of the 2012 quarterly unaudited condensed interim consolidated financial statements, compared to those applied by the Corporation to the consolidated financial statements for the year ended December 31, 2011.

RISK FACTORS

The risk factors are discussed in the Corporation'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 21, 2012, the Corporation had the following:

Issued and outstanding - 11,783,069 shares

Warrants outstanding:

Expiry date	Number of warrants outstanding	Exercise price ($)
July 2013	5,000,000	1.50

Stock purchase options outstanding:

Expiry date	Number of options outstanding	Number of options exercisable	Exercise price ($)
June 2013	375,000	375,000	1.90
August 2013	170,000	170,000	1.00
July 2014	265,000	265,000	0.50
June 2020	160,000	160,000	0.35
July 2022	50,000	50,000	0.25
	1,020,000	1,020,000	

Share-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.

OTHER INFORMATION

The Corporation's web address is www.xterraresources.com. Further information regarding the Corporation 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 Corporation 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 21, 2012.

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

(S) Sylvain Champagne
Sylvain Champagne, Chief Financial Officer