

X-Terra Resources Corporation

Unaudited Condensed Interim Consolidated Financial Statements
Three-month period ended March 31, 2011

(expressed in Canadian dollars, except
share and per share amounts)

X-Terra Resources Corporation

Management's Responsibility for Financial Reporting

The accompanying unaudited condensed interim consolidated financial statements for X-Terra Resources Corporation are the responsibility of the Management. The unaudited condensed interim consolidated financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the unaudited condensed interim consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions that were complete at the balance sheet date. In the opinion of management, the unaudited condensed interim consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Financial Reporting Standards applicable to the preparation of interim consolidated financial statements, including IAS 34 and IFRS 1.

The Board of Directors is responsible for reviewing and approving the unaudited condensed interim consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited condensed interim consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

The unaudited condensed interim consolidated financial statements which are included in this report have not been subject to a review by the Company's external auditors.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

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

(S) Sylvain Champagne
Sylvain Champagne
Chief Financial Officer

Rouyn-Noranda, Canada
June 29, 2011

X-Terra Resources Corporation

Interim Consolidated Balance Sheets

(Unaudited)

(expressed in Canadian dollars, except share and per share amounts)

		March 31, 2011	December 31, 2010 (Note 5)	January 1, 2010 (Note 5)
	Note	\$	\$	\$
Assets				
Current assets				
Cash and cash equivalents		2,089,155	2,133,942	2,609,361
Marketable securities		1,020,730	1,022,970	1,008,570
Investments	6	2,340,000	1,980,000	2,050,000
Accounts receivable		33,343	88,743	93,563
Tax credits receivable		139,527	126,609	85,962
Prepaid insurance		4,683	5,744	5,743
		<u>5,627,438</u>	<u>5,358,008</u>	<u>5,853,199</u>
Non-current assets				
Property, plant and equipment		16,328	17,535	9,588
Mining and oil gas properties	7	1,002,148	1,001,967	996,655
Deferred exploration expenses	8	606,997	583,006	492,336
		<u>1,625,473</u>	<u>1,602,508</u>	<u>1,498,579</u>
Total Assets		<u>7,252,911</u>	<u>6,960,516</u>	<u>7,351,778</u>
Liabilities				
Current liabilities				
Account payable and accrued liabilities		<u>85,223</u>	<u>71,758</u>	<u>35,842</u>
Total Liabilities		<u>85,223</u>	<u>71,758</u>	<u>35,482</u>
Equity				
Share Capital		25,466,499	25,466,499	25,466,499
Warrants and brokers' options		1,840,527	1,848,627	1,736,775
Contributed surplus		2,684,960	2,676,860	2,070,212
Accumulated other comprehensive income		1,392,211	1,032,211	841,801
Deficit		(24,216,509)	(24,135,439)	(22,798,991)
Total Equity		<u>7,167,688</u>	<u>6,888,758</u>	<u>7,316,296</u>
Total Liabilities and Equity		<u>7,252,911</u>	<u>6,960,516</u>	<u>7,351,778</u>

X-Terra Resources Corporation

Interim Consolidated Statement of Loss

(Unaudited)

(expressed in Canadian dollars, except share and per share amounts)

	Three months ended March 31,	
	2011	2010
		(Note 5)
Note	\$	\$
Expenses		
Professional fees	569	22,500
Consulting fees	55,995	50,910
Public company expenses	7,355	6,900
Office and general	11,323	8,655
Conference and promotion	18,336	5,918
Share-based compensation	–	–
Depreciation and amortization	1,207	657
	<hr/>	<hr/>
Operating loss	94,785	95,540
	<hr/>	<hr/>
Finance income	(15,955)	(12,231)
Unrealized loss on investments at fair value through profit or loss	2,240	232,000
	<hr/>	<hr/>
	(13,715)	219,769
	<hr/>	<hr/>
Net loss for the period	81,070	315,309
	<hr/>	<hr/>
Basic and diluted net loss per share	0.01	0.03
Weighted average number of shares outstanding		
Basic and diluted	11,783,069	11,783,069

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

X-Terra Resources Corporation

Interim Consolidated Statements of Comprehensive Loss (Unaudited)

(expressed in Canadian dollars, except share and per share amounts)

		Three months ended March 31,	
		2011	2010
	Note	\$	(Note 5)
			\$
Net loss for the period		(81,070)	(315,309)
Other comprehensive income (loss)			
Changes in fair value of available-for-sale investments	6	<u>360,000</u>	<u>(560,000)</u>
Other comprehensive income (loss) for the period		<u>360,000</u>	<u>(560,000)</u>
Comprehensive income (loss) for the period		<u>278,930</u>	<u>(875,309)</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

X-Terra Resources Corporation

Interim Consolidated Statements of Changes in Equity (Unaudited)

(expressed in Canadian dollars, except share and per share amounts)

	Number of common shares	Share Capital \$	Warrants and brokers' options \$	Contributed surplus \$	Accumulated other comprehensive income \$	Deficit \$	Total Equity \$
Balance – January 1, 2011	11,783,069	25,466,499	1,848,627	2,676,860	1,032,211	(24,135,439)	6,888,758
Net loss for the period	-	-	-	-	-	(81,070)	(81,070)
Other comprehensive income (loss)	-	-	-	-	360,000	-	360,000
Total comprehensive income (loss) for the period	-	-	-	-	360,000	(81,070)	278,930
Fair value of warrants expired	-	-	(8,100)	8,100	-	-	-
Balance – March 31, 2011	11,783,069	25,466,499	1,840,527	2,684,960	1,392,211	(24,216,509)	7,167,688
Balance – January 1, 2010	11,783,069	25,466,499	1,736,775	2,070,212	841,801	(22,798,991)	7,316,296
Net loss for the period	-	-	-	-	-	(315,309)	(315,309)
Other comprehensive loss	-	-	-	-	(560,000)	-	(560,000)
Total comprehensive loss for the period	-	-	-	-	(560,000)	(315,309)	(875,309)
Balance – March 31, 2010	11,783,069	25,466,499	1,736,775	2,070,212	281,801	(23,114,300)	6,440,987

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

X-Terra Resources Corporation

Interim Consolidated Statements Cash Flow

(Unaudited)

(expressed in Canadian dollars, except share and per share amounts)

	Three months ended March 31,	
	2011	2010
		(Note 5)
Note	\$	\$
Cash flows provided by (used in)		
Operating activities		
Net loss for the period	(81,070)	(315,309)
Adjustments for:		
Depreciation and amortization	1,207	657
Unrealized loss arising from fair value changes on investment at fair value through profit or loss	2,240	232,000
	<u>(77,623)</u>	<u>(82,652)</u>
Changes in non-cash operating working capital items		
Accounts receivable	55,400	(26,593)
Tax credit receivable	-	-
Prepaid insurance	1,061	1,075
Amounts payable and accrued liabilities	13,465	43,079
	<u>69,926</u>	<u>17,561</u>
Net cash used in operating activities	<u>(7,697)</u>	<u>(65,091)</u>
Investing activities		
Expenditures on mining and oil and gas properties	(181)	(230)
Expenditures on deferred exploration expenses	(36,909)	(40,975)
Net cash used in investing activities	<u>(37,090)</u>	<u>(41,205)</u>
Net variation in cash and cash equivalents	<u>(44,787)</u>	<u>(106,296)</u>
Cash and cash equivalents – Beginning of period	<u>2,133,942</u>	<u>2,609,361</u>
Cash and cash equivalents – End of period	<u>2,089,155</u>	<u>2,503,065</u>
Components of cash and cash equivalents are as follows:		
Cash	255,510	428,374
Cash equivalents	1,833,645	2,074,691
Supplemental information		
Income tax paid	-	-
Interest paid	-	-
Mining and oil and gas properties included in accounts payable and accrued liabilities	-	230
Deferred exploration expenses included in accounts payable and accrued liabilities	35,395	22,573

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements

X-Terra Resources Corporation

Notes to condensed interim consolidated financial statements

(Unaudited) For the three-month periods ended March 31, 2011 and 2010

(expressed in Canadian dollars, except share and per share amounts)

1 Nature of operations and liquidity

X-Terra Resources Corporation (the “Company”) was incorporated on February 24, 1987 under the company Act of the Province of British Columbia in Canada and is listed on the TSX Venture Exchange. In 2008, shareholders approved a special resolution authorizing the continuance of the Company under the Canada Business Corporations Act. On September 4, 2008, the Company obtained a Certificate and Articles of Continuance under the Act, rendering the continuance effective. The address of the Company’s headquarters and registered office is 202-139 Avenue Québec, Rouyn-Noranda, Québec, Canada, J9X 6M8. The Company, 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 and has not yet determined whether they contain mineral deposits that are economically recoverable.

Until it is determined that properties contain mineral reserves or resources that can be economically mined, they are classified as exploration properties. The recoverability of deferred exploration expenses is dependent on the discovery of economically recoverable reserves and resources; securing and maintaining title and beneficial interest in the properties; the ability to obtain necessary financing to continue the exploration and development of its properties; and obtaining certain government approvals and future profitable production or proceeds from the disposal of properties. Changes in future conditions could require material write downs of the carrying value of mining and oil and gas properties.

Although the Company has taken steps to verify title to a certain property on which it is conducting exploration and in which it is acquiring an interest, in accordance with industry standards for the current stage of exploration of such property, these procedures do not guarantee the Company’s title. Property title may be subject to unregistered prior agreements, and non-compliance with regulatory requirements.

As at March 31, 2011, the Company had working capital of \$5,542,215 (December 31, 2010 – \$5,286,250) including cash and cash equivalents of \$2,089,155 (December 31, 2010 – \$2,133,942) and accumulated deficit of \$24,216,242 (December 31, 2010 – \$24,135,439), and had incurred a loss of \$81,070 (March 31, 2010 – \$315,309) for the three-month period then ended.

Management of the Company believes that it has sufficient funds to pay its ongoing general and administrative expenses, to pursue its 2011 budgeted exploration expenditures and to meet its liabilities, obligations and existing commitments for the ensuing 12 months as they fall due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, 12 months from the end of the reporting period. The Company’s ability to continue future operations beyond 2011 and fund its exploration expenditures is dependent on management’s ability to secure additional financing in the future, which may be completed in a number of ways, including but not limited to, the issuance of debt or equity instruments. Management will pursue such additional sources of financing when required, and while management has been successful in securing financing in the past, there can be no assurance it will be able to do so in the future or that these sources of funding or initiatives will be available for the Company or that they will be available on terms which are acceptable to the Company. The Company's financial year ends on December 31. The unaudited condensed interim consolidated financial statements were authorized by the Board of Directors on June 29, 2011.

X-Terra Resources Corporation

Notes to condensed interim consolidated financial statements
(Unaudited) For the three-month periods ended March 31, 2011 and 2010
(expressed in Canadian dollars, except share and per share amounts)

2 Summary of significant accounting policies

The significant accounting policies used in the preparation of these unaudited condensed interim consolidated financial statements are described below.

a) Basis of preparation and adoption of IFRS

The consolidated financial statements of the Group have been prepared 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 these interim financial statements. In the financial statements, the term “Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS.

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”). Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

The accounting policies set out below have been applied consistently to all periods presented in these unaudited condensed interim consolidated financial statements. They also have been applied in preparing an opening IFRS balance sheet at January 1, 2010 (note 5) for the purposes of the transition to IFRS, as required by first time adoption of International Financial Reporting Standards (“IFRS 1”).

The policies applied in these unaudited condensed interim consolidated financial statements are based on IFRS issued and outstanding as at June 29, 2011, the date the Board of Directors approved the statements for issue. Any subsequent changes to IFRS that are given effect in the Company’s annual consolidated financial statements for the year ending December 31, 2011 could result in a restatement of these unaudited condensed interim consolidated financial statements, including the transition adjustments recognized on conversion to IFRS.

The condensed interim consolidated financial statements should be read in conjunction with the Company’s Canadian GAAP annual financial statements for the year ended December 31, 2010. Note 5 discloses IFRS information for the year ended December 31, 2010 not provided in the 2010 annual financial statements and considered material in understanding these unaudited condensed interim consolidated financial statements.

b) Basis of measurement

These unaudited condensed interim consolidated financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments to fair value. In addition, these unaudited condensed interim consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

X-Terra Resources Corporation

Notes to condensed interim consolidated financial statements

(Unaudited) For the three-month periods ended March 31, 2011 and 2010

(expressed in Canadian dollars, except share and per share amounts)

c) Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Minera Reina Isabel, S.A. de C.V. (“Minera Reina”) and Minera Tatemas, S.A. de C.V. (“Minera Tatemas”), which are currently inactive. All intercompany transactions and balances have been eliminated.

d) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances, and highly liquid short-term investments with original maturities of three months or less from the date of purchase and which are readily convertible to known amounts of cash.

e) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

- i. Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Derivatives are also included in this category unless they are designated as hedges. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statements of comprehensive loss. Gains and losses arising from changes in fair value are presented in the statements of income (loss) in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the balance sheet date, which is classified as non current.
- ii. Available for sale investments: Available for sale investments are non derivatives that are either designated in this category or not classified in any of the other categories. Available for sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. When an available for sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of income (loss).
- iii. Loans and receivables: Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at the

X-Terra Resources Corporation

Notes to condensed interim consolidated financial statements

(Unaudited) For the three-month periods ended March 31, 2011 and 2010

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amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

- iv. Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable and accrued liabilities. Accounts payables and accrued liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce to fair value. Accounts payables and accrued liabilities are measured at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non current liabilities.

The Company's financial instruments are classified as follows:

Category	Financial instrument
Loans and receivables	Cash and cash equivalents Accounts receivable
Available-for-sale financial assets	Investments in shares of a public company
Financial assets and liabilities at fair value through profit or loss	Investments in warrants of a public company Money market funds Marketable securities in bonds
Other financial liabilities	Accounts payable and accrued liabilities

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss, as follows:

- i. Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the financial asset and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.
- ii. Available-for-sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the consolidated statement of income. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to net income.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed.

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Notes to condensed interim consolidated financial statements

(Unaudited) For the three-month periods ended March 31, 2011 and 2010

(expressed in Canadian dollars, except share and per share amounts)

f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the statement of income during the period in which they are incurred.

The major categories of property, plant and equipment are depreciated as follows:

	Method	Rate
Computer equipment/software	Declining balance	30%
Office furniture	Declining balance	20%
Exploration equipment	Declining balance	30%

The company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included in the statement of income.

g) Exploration and evaluation

Exploration and evaluation ("E&E") assets are comprised of deferred exploration expenses and mining and oil and gas properties. Expenditures incurred on activities that precede exploration for and evaluations of mineral resources, being all expenditures incurred prior to securing the legal rights to explore an area, are expensed immediately.

E&E assets includes rights in mining and oil and gas properties, paid or acquired through a business combination or an acquisition of assets, and costs related to the initial search for mineral deposits with economic potential or to obtain more information about existing mineral deposits.

Mining and oil and gas rights are recorded at acquisition cost or at fair value in the case of a devaluation caused by an impairment of value. Mining and oil and gas rights and options to acquire undivided interests in mining rights are depreciated only as these properties are put into commercial production. These costs are written off when properties are abandoned or when cost recovery or access to resources is uncertain.

From time to time, the Company may acquire or dispose of a property pursuant to the terms of an option agreement. Due to the fact that options are exercisable entirely at the discretion of the option holder, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received.

X-Terra Resources Corporation

Notes to condensed interim consolidated financial statements

(Unaudited) For the three-month periods ended March 31, 2011 and 2010

(expressed in Canadian dollars, except share and per share amounts)

E&E expenditures for each separate area of interest are capitalized and include costs associated with prospecting, sampling, trenching, drilling and other work involved in searching for ore like topographical, geological, geochemical and geophysical studies. They also reflect costs related to establishing the technical and commercial viability of extracting a mineral resource identified through exploration or acquired through a business combination or asset acquisition. E&E expenditures include the cost of:

- establishing the volume and grade of deposits through drilling of core samples, trenching and sampling activities in an ore body that is classified as either a mineral resource;
- determining the optimal methods of extraction and metallurgical and treatment processes;
- studies related to surveying, transportation and infrastructure requirements;
- permitting activities; and
- economic evaluations to determine whether development of the mineralized material is commercially justified, including scoping, prefeasibility and final feasibility studies.

When a project moves into the development phase, E&E expenditures are capitalized to development costs in property, plant and equipment. If an E&E activity does not prove viable, all irrecoverable costs with the project are written off.

E&E expenditures include overhead expenses directly attributable to the related activities.

Cash flows attributable to capitalized E&E costs are classified as investing activities in the statement of cash flows under the heading expenditures on mining and oil and gas properties and expenditures on deferred exploration expenses.

h) Impairment of non-financial assets

Property, plant and equipment and exploration and evaluation expenses are reviewed for impairment if there is any indication that the carrying amount may not be recoverable. If any such indication is present, the recoverable amount of the asset is estimated in order to determine whether impairment exists. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the asset group to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or asset group is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount. Impairment is recognized immediately as additional depreciation or amortization. Where an impairment subsequently reverses, the carrying amount is increased to the revised estimate of recoverable amount but only to the extent that this does not exceed the carrying value that would have been determined if no impairment had previously been recognized. A reversal is recognized as a reduction in the depreciation or amortization charge for the period.

X-Terra Resources Corporation

Notes to condensed interim consolidated financial statements

(Unaudited) For the three-month periods ended March 31, 2011 and 2010

(expressed in Canadian dollars, except share and per share amounts)

i) Refundable tax credits for mining exploration expenses

Company is entitled to a refundable tax credit on qualified mining exploration expenses incurred in the province of Québec and on mining duties. The credits are recorded against the deferred exploration expenditures incurred.

j) Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

k) Share-based payment transactions

The fair value of share options granted to employees are recognized as an expense, or capitalized to deferred exploration expenditures over the vesting period with a corresponding increase in contributed surplus. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company.

The fair value is measured at the grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

l) Share Capital and warrants

Common shares and warrants are classified as equity. Incremental costs directly attributable to the issuance of shares or warrants are recognized as a deduction from the proceeds in equity in the period where the transaction occurs. Proceeds from unit placements are allocated between shares and warrants issued on a pro-rata basis of their value within the unit using the Black-Scholes pricing model to determine the fair value of warrants issued.

m) Flow-through shares

The Company finances some exploration expenditures through the issuance of flow-through shares. The resource expenditure deductions for income tax purposes are renounced to investors in accordance with the appropriate income tax legislation. The Company recognizes a deferred tax liability for flow-through shares and a deferred tax expense, at the moment the eligible expenditures are incurred. The difference between the quoted price of the common shares and the amount the investors pay for the shares (the "premium") is recognized as other liability which is reversed into earnings when eligible expenditures have been made.

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Notes to condensed interim consolidated financial statements

(Unaudited) For the three-month periods ended March 31, 2011 and 2010

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n) Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in other comprehensive income or in equity, in which case it is recognized in other comprehensive income or in equity, respectively.

Mining taxes represent Canadian provincial taxes levied on mining operations and are classified as income taxes since such taxes are based on a percentage of mining profits.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The following temporary differences are not provided for if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred income tax assets and liabilities are presented as non current and are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

o) Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all warrants, brokers' options and stock options that may add to the total number of common shares.

p) Segment disclosures

The Company currently operates in a single segment: the acquisition, exploration and development of mining and oil and gas properties. All of the Company's activities are conducted in Quebec, Canada.

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Notes to condensed interim consolidated financial statements

(Unaudited) For the three-month periods ended March 31, 2011 and 2010

(expressed in Canadian dollars, except share and per share amounts)

3 New accounting standards not yet adopted

The IASB issued the following standards which are relevant but have not yet been adopted by the Company: IFRS 9, Financial instruments, IFRS 10, Consolidated Financial Statement, IFRS 13, Fair Value Measurement and amended IAS 27, Separate Financial Statements. Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

The following is a brief summary of the new standards:

IFRS 9 - Financial instruments - classification and measurement

IFRS 9, Financial Instruments, was issued in November 2009. It addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39, Financial Instruments – Recognition and Measurement, for debt instruments with a new mixed measurement model with only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

IFRS 9 required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The company has not yet assessed the impact of the standard or determined whether it will adopt if early.

IFRS 10 – Consolidation

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

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IFRS 11 - Joint Arrangements

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 - Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

4 Critical accounting estimates, judgments and assumptions

Many of the amounts included in the financial statements require management to make judgments and/or estimates. These judgments and estimates are continuously evaluated and are based on management's experience and knowledge of the relevant facts and circumstances. Actual results may differ from the amounts included in the financial statements.

Areas of significant judgment and estimates affecting the amounts recognized in the financial statements include:

Many of the amounts included in the financial statements require management to make judgments and/or estimates. These judgments and estimates are continuously evaluated and are based on management's experience and knowledge of the relevant facts and circumstances. Actual results may differ from the amounts included in the financial statements.

Areas of significant judgment and estimates affecting the amounts recognized in the financial statements include:

i. Impairment of non-financial assets

The Company's fair value measurement with respect to the carrying amount of non-financial assets is based on numerous assumptions and may differ significantly from actual fair values. The fair values are

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based, in part, on certain factors that may be partially or totally outside of the Company's control. This evaluation involves a comparison of the estimated fair values of non-financial assets to their carrying values. The Company's fair value estimates are based on numerous assumptions. The fair value estimates may differ from actual fair values and these differences may be significant and could have a material impact on the Company's financial position and result of operations. Assets are reviewed for an indication of impairment at each balance sheet date. This determination requires significant judgment. Factors which could trigger an impairment review include, but are not limited to, significant negative industry or economic trends, interruptions in exploration and evaluation activities and significant drop in commodity prices.

In the fourth quarter of 2010, based on an assessment for impairment, the Cool Lake and Shawinigan properties were written off by a total of \$8,935 and the related deferred exploration expense by \$55,391.

ii. Recognition of deferred income tax assets and the measurement of income tax expense

Periodically, the Company evaluates the likelihood of whether some portion of the deferred tax assets will not be realized. Once the evaluation is completed, if we believe that it is probable that some portion of the deferred tax assets will fail to be realized, the Company records only the remaining portion for which it is probable that there will be available future taxable profit against which the temporary differences can be utilized. Assessing the recoverability of deferred income tax assets requires management to make significant judgment. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the balance sheet date could be impacted.

iii. Valuation of share based payments

The Company records all share based payments using the fair value method. The Company uses the Black-Scholes model to determine the fair value of stock options, warrants and brokers' options. The main factor affecting the estimates of the fair value of stock options, warrants and brokers' options is the stock price expected volatility used. The Company currently estimates the expected volatility of its common shares based on its historical volatility taking into consideration the expected life of the options.

iv. Cash and cash equivalents

The Company holds investments in highly liquid money market investment funds. The determination of whether a money market fund qualifies as a cash equivalent requires significant judgment. In determining whether such investments qualify as cash equivalents, the Company considers the following criteria: whether all investments held by the fund qualify individually as cash equivalents, the fund's management and investment policies, and any position papers issued by the associated financial institution or others

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5 Transition to International Financial Reporting Standards (“IFRS”)

The effect of the Group’s transition to IFRS, is summarized in this note as follows:

- a) Transition elections;
- b) Reconciliation of balance sheet, equity, statement of income (loss) and comprehensive income (loss) as previously reported under Canadian GAAP to IFRS and explanatory notes;
- c) Adjustments to the statement of cash flows;
- d) Additional IFRS information for the year ended December 31, 2010.

a) Transition elections

IFRS 1, First Time Adoption of IFRS, offers the possibility to utilize certain exemptions from full retrospective application of IFRS. The Company evaluated the options available and elected to adopt the following transition exemptions:

- i. In accordance with IFRS 1, the Company elected to apply IFRS 2, Share-based Payments, prospectively. This exemption enables the Company to apply IFRS 2 "Share-based payments" retrospectively at the transition date only to equity instruments that were attributed after November 7, 2002 and had not vested by the IFRS transition date. At transition date no adjustments were identified. Canadian GAAP balances of equity components relating to share-based payment transactions entered into before that date have been carried forward without adjustment.
- ii. In accordance with IFRS 1, the Company has elected to apply the transitional provisions in IFRIC 4, Determining whether an Arrangement contains a Lease, at the date of transition to all arrangements other than those entered into or modified since January 1, 2005, as such arrangements have already been assessed under requirements similar to those of IFRIC 4 under Canadian GAAP. No impact resulted from the review of arrangements.
- iii. In accordance with IFRS 1, the Company has elected to apply IAS 23 Borrowing costs prospectively from the date of transition, therefore the accounting of borrowing costs prior to the transition date was not reassessed in the opening IFRS consolidated statement of financial position.
- iv. In accordance with IFRS 1, the Company elected not to apply IFRS 3, Business Combinations, (as revised in 2008) to business combinations occurring before January 1, 2010. As such, Canadian GAAP balances relating to business combinations entered into before that date have been carried forward without adjustment.

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b) Reconciliation of balance sheet, equity, statement of loss and comprehensive loss as previously reported under Canadian GAAP to IFRS and explanatory notes

Ref.	December 31, 2010			March 31, 2010			January 1, 2010		
	Canadian GAAP \$	Adj. \$	IFRS \$	Canadian GAAP \$	Adj. \$	IFRS \$	Canadian GAAP \$	Adj. \$	IFRS \$
Assets									
Current assets									
Cash and cash equivalents	2,133,942	–	2,133,942	2,503,065	–	2,503,065	2,609,361	–	2,609,361
Marketable securities	1,022,970	–	1,022,970	1,008,570	–	1,008,570	1,008,570	–	1,008,570
Investments	1,980,000	–	1,980,000	1,258,000	–	1,258,000	2,050,000	–	2,050,000
Accounts receivable	88,743	–	88,743	120,156	–	120,156	93,563	–	93,563
Tax credits receivable	126,609	–	126,609	85,962	–	85,962	85,962	–	85,962
Prepaid insurance	5,744	–	5,744	4,668	–	4,668	5,743	–	5,743
	<u>5,358,008</u>	<u>–</u>	<u>5,358,008</u>	<u>4,980,421</u>	<u>–</u>	<u>4,980,421</u>	<u>5,853,199</u>	<u>–</u>	<u>5,853,199</u>
Non-current assets									
Property, plant and equipment	17,535	–	17,535	8,931	–	8,931	9,588	–	9,588
Mineral and oil gas properties	1,001,967	–	1,001,967	996,885	–	996,885	996,655	–	996,655
Deferred exploration expenses	583,006	–	583,006	533,311	–	533,311	492,336	–	492,336
	<u>1,602,508</u>	<u>–</u>	<u>1,602,508</u>	<u>1,539,127</u>	<u>–</u>	<u>1,539,127</u>	<u>1,498,579</u>	<u>–</u>	<u>1,498,579</u>
Total Assets	<u>6,960,516</u>	<u>–</u>	<u>6,960,516</u>	<u>6,519,548</u>	<u>–</u>	<u>6,519,548</u>	<u>7,351,778</u>	<u>–</u>	<u>7,351,778</u>
Liabilities									
Current liabilities									
Accounts payable and accrued liabilities	71,758	–	71,758	78,561	–	78,561	35,482	–	35,482
Total Liabilities	<u>71,758</u>	<u>–</u>	<u>71,758</u>	<u>78,561</u>	<u>–</u>	<u>78,561</u>	<u>35,482</u>	<u>–</u>	<u>35,482</u>
Equity									
Share Capital	(i) 25,440,232	26,267	25,466,499	25,440,232	26,267	25,466,499	25,440,232	26,267	25,466,499
Warrants and brokers' options	1,848,627	–	1,848,627	1,736,775	–	1,736,775	1,736,775	–	1,736,775
Contributed surplus	2,676,860	–	2,676,860	2,070,212	–	2,070,212	2,070,212	–	2,070,212
Accumulated other comprehensive income	1,032,211	–	1,032,211	281,801	–	281,801	841,801	–	841,801
Deficit	(i) (24,109,172)	(26,267)	(24,135,439)	(23,088,033)	(26,267)	(23,114,300)	(22,772,724)	(26,267)	(22,798,991)
Total Equity	<u>6,888,758</u>	<u>–</u>	<u>6,888,758</u>	<u>6,440,987</u>	<u>–</u>	<u>6,440,987</u>	<u>7,316,296</u>	<u>–</u>	<u>7,316,296</u>
Total Liabilities and Equity	<u>6,960,516</u>	<u>–</u>	<u>6,960,516</u>	<u>6,519,548</u>	<u>–</u>	<u>6,519,548</u>	<u>7,351,778</u>	<u>–</u>	<u>7,351,778</u>

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Ref.	Year ended December 31, 2010			Three-month periods ended March 31, 2010		
	Canadian GAAP \$	Adj. \$	IFRS \$	Canadian GAAP \$	Adj. \$	IFRS \$
Expenses						
Professional fees	51,075	–	51,075	22,500	–	22,500
Consulting fees	220,019	–	220,019	50,910	–	50,910
Public company expenses	26,321	–	26,321	6,900	–	6,900
Office and general	37,151	–	37,151	8,655	–	8,655
Conference and promotion	31,244	–	31,244	5,918	–	5,918
Share-based compensation	58,500	–	58,500	–	–	–
Depreciation and amortization	4,344	–	4,344	657	–	657
Impairment loss of mining, oil and gas properties	8,935	–	8,935	–	–	–
Impairment loss of deferred exploration expenses	55,391	–	55,391	–	–	–
Operating loss	492,980	–	492,980	95,540	–	95,540
Finance income	(62,542)	–	(62,542)	(12,231)	–	(12,231)
Unrealized loss on investments at fair value through profit or loss	275,600	–	275,600	232,000	–	232,000
Extension of warrants	660,000	–	660,000	–	–	–
	873,058	–	873,058	219,769	–	219,769
Loss before income tax	1,366,038	–	1,366,038	315,309	–	315,309
Deferred income tax expense (recovery)	(29,590)	–	(29,590)	–	–	–
Net loss for the period	1,336,448	–	1,336,448	315,309	–	315,309
Other comprehensive loss (income)						
Change in fair value of available-for-sale investments net of tax	(190,410)	–	(190,410)	560,000	–	560,000
Other comprehensive loss (income) for the period	(190,410)	–	(190,410)	560,000	–	560,000
Comprehensive loss (income) for the period	1,146,038	–	1,146,038	875,309	–	875,309

Certain amounts on the unaudited interim consolidated statements of income (loss) have been reclassified to conform to the presentation adopted under IFRS, as the statement of income (loss) under Canadian GAAP incorporated expenses by function and by nature which is not permitted under IFRS.

Explanatory notes

- i. Under Canadian GAAP, when flow-through shares are issued, they are initially recorded in share capital at their issue price. On the date the expenses are renounced (by filing the prescribed forms) to the investors, a future tax liability is recognized as a cost of issuing the shares (a reduction in share capital). Under IFRS, flow-through shares are recognized based on the quoted price of the existing shares on the date of the issue. The difference between the amount recognized in share capital and the amount the investors pay for the shares (premium) is recognized as other liability which is reversed into earnings as deferred tax recovery when eligible expenditures have been made. The tax effect resulting from the renunciation is recorded as a deferred tax expense when eligible expenditures have been made.

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c) Adjustments to the statement of cash flows

The transition from Canadian GAAP to IFRS had no significant impact on the cash flows generated by the Company.

d) Additional IFRS information for the year ended December 31, 2010

Compensation of key management

The Company has a service agreement with a related party to provide management services to the Company, including senior executives.

Key management includes directors (executive and non-executive) and senior executives. The compensation paid or payable to key management is presented below:

	Year ended December 31, 2010
	\$
Key management services and directors fees	178,020
Share-based payments	58,500

Property, plant and equipment

	Computer equipment	Office furniture	Exploration equipment	Total
	\$	\$	\$	\$
As at January 2010				
Cost	11,952	3,440	–	15,392
Accumulated depreciation	(4,841)	(963)	–	5,804
Net book amount	7,111	2,477	–	9,588
Year ended December 31, 2010				
Opening net book amount	7,111	2,477	–	9,588
Additions	1,923	2,568	7,800	12,291
Depreciation for the year	(2,422)	(752)	(1,170)	(4,344)
Closing net book	6,612	4,293	6,630	17,535

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Deferred exploration expenses

Property	Undivided interest %	Year ended December 31, 2010				Balance as at December 31, 2010 \$
		Balance as at January 1, 2010 \$	Increase \$	Write off \$	Refundable tax credits and mining duties \$	
Lindsay	100	415,159	207,075	-	(103,063)	519,171
Cool Lake	100	34,892	107	(34,955)	(44)	-
Rimouski	50	14,434	27,034	-	(10,781)	30,687
Rimouski North	50	15,849	28,211	-	(11,247)	32,813
Shawinigan	50	12,002	14,100	(20,436)	(5,666)	-
Trois-Pistoles	50	-	585	-	(250)	335
		492,336	277,112	(55,391)	(131,051)	583,006

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6 Investments

Investments comprise:

	March 31, 2011 \$	March 31, 2010 \$	January 1, 2010 \$
Common shares of public company	2,340,000	1,200,000	1,760,000
Warrants of public company	–	58,000	290,000
	<u>2,340,000</u>	<u>1,258,000</u>	<u>2,050,000</u>

None of these financial assets is either past due or impaired.

The gain (loss) on investments comprise of the following:

	<u>Period ended March 31,</u>	
	2011 \$	2010 \$
Available-for-sale financial assets	360,000	(560,000)
Financial assets designated at fair value through profit or loss	–	(232,000)

7 Mining and oil and gas properties

<u>Three months ended March 31, 2011</u>						
Property	Number of claims/ permits	Undivided interest %	Balance as at December 31, 2010 \$	Net acquisitions \$	Writeoff \$	Balance as at March 31, 2011 \$
Lindsay	25	100	980,189	181	–	980,370
Rimouski	2	50	5,999	–	–	5,999
Rimouski North	3	50	7,900	–	–	7,900
Trois-Pistoles	8	50	7,879	–	–	7,879
			<u>1,001,967</u>	181	–	<u>1,002,148</u>

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8 Deferred exploration expenses

Property	Undivided interest %	Three months ended March 31, 2011				
		Balance as at December 31, 2010 \$	Increase \$	Write off \$	Refundable tax credits and mining duties \$	Balance as at March 31, 2011 \$
Lindsay	100	519,171	3,750	–	(1,313)	521,608
Rimouski	50	30,687	16,394	–	(5,738)	41,343
Rimouski North	50	32,813	16,315	–	(5,710)	43,418
Trois-Pistoles	50	335	450	–	(157)	628
		<u>583,006</u>	<u>36,909</u>	<u>–</u>	<u>(12,918)</u>	<u>606,997</u>

9 Share purchase options

Information relating to options outstanding and exercisable as at March 31, 2011 is as follows:

Options outstanding	Weighted average remaining contractual life	Exercise price \$
60,000	1.2 years	1.10
375,000	2.17 years	1.90
270,000	2.41 years	1.00
290,000	3.25 years	0.50
<u>180,000</u>	9.25 years	0.35
<u>1,175,000</u>		