



X·TERRA

RESOURCES CORPORATION

X-TERRA RESOURCES CORPORATION

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS
THREE-MONTH PERIOD ENDED MARCH 31, 2010
(unaudited)**

FINANCIAL STATEMENTS

Consolidated Balance Sheets

Consolidated Statements of Operations and Deficit

Consolidated Statements of Comprehensive Income

Consolidated Statements of Cash Flows

Notes to Interim Consolidated Financial Statements

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

X-Terra Resources Corporation

(an exploration stage company)

Consolidated Balance Sheets

(unaudited)

| | March 31, 2010 | December 31, 2009 |
|---|---------------------------|------------------------------|
| | \$ | \$ |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 2,503,065 | 2,609,361 |
| Marketable securities | 1,008,570 | 1,008,570 |
| Investments (note 2) | 1,258,000 | 2,050,000 |
| Accounts receivable (note 3) | 206,118 | 179,525 |
| Prepaid expenses | 4,668 | 5,743 |
| | <u>4,980,421</u> | <u>5,853,199</u> |
| Property, plant and equipment (note 4) | 8,931 | 9,588 |
| Mining and oil and gas properties (note 5) | 996,885 | 996,655 |
| Deferred exploration expenses (note 6) | 533,311 | 492,336 |
| | <u>6,519,548</u> | <u>7,351,778</u> |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | <u>78,561</u> | <u>35,482</u> |
| Shareholders' Equity | | |
| Share capital (note 7) | 25,440,232 | 25,440,232 |
| Warrants and brokers' options (note 7) | 1,736,775 | 1,736,775 |
| Contributed surplus | 2,070,212 | 2,070,212 |
| Deficit | (23,088,033) | (22,772,724) |
| Accumulated other comprehensive income | <u>281,801</u> | <u>841,801</u> |
| | <u>6,440,987</u> | <u>7,316,296</u> |
| | <u>6,519,548</u> | <u>7,351,778</u> |

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

Approved by the Board of Directors

Martin Dallaire (signed) Director
Martin Dallaire

Sylvain Champagne (signed) Director
Sylvain Champagne

X-Terra Resources Corporation

(an exploration stage company)

Consolidated Statements of Operations and Deficit

For the three-month period ended March 31, 2010 and 2009

(unaudited)

| | 2010 | 2009 |
|--|---------------------|---------------------|
| | \$ | \$ |
| Administrative expenses | | |
| Insurance | 2,056 | 3,003 |
| Professional fees | 22,500 | 6,304 |
| General administrative expenses | 63,427 | 75,009 |
| Shareholders' communication | 425 | 1,206 |
| Transfer agent and regulatory fees | 6,475 | 6,182 |
| Amortization of property, plant and equipment | 657 | 917 |
| | <u>95,540</u> | <u>92,621</u> |
| Other expenses (income) | | |
| Interest income | (12,231) | (14,604) |
| Unrealized loss on investments held for trading | 232,000 | 34,316 |
| | <u>219,769</u> | <u>19,712</u> |
| Net loss for the period | 315,309 | 112,333 |
| Deficit – Beginning of period | <u>(22,772,724)</u> | <u>(22,625,731)</u> |
| Deficit – End of period | <u>(23,088,033)</u> | <u>(22,738,064)</u> |
| Basic and diluted net loss per share | <u>0.03</u> | <u>0.01</u> |
| Weighted average number of basic and diluted shares outstanding | <u>11,783,069</u> | <u>11,959,562</u> |

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

X-Terra Resources Corporation

(an exploration stage company)

Consolidated Statements of Comprehensive Income

For the three-month period ended March 31, 2010 and 2009

(unaudited)

| | 2010 | 2009 |
|--|------------------|------------------|
| | \$ | \$ |
| Net loss for the period | 315,309 | 112,333 |
| Other comprehensive income | | |
| Unrealized loss on available-for-sale investments | 560,000 | 210,500 |
| Comprehensive loss for the period | <u>875,309</u> | <u>322,833</u> |
| Accumulated other comprehensive income: | | |
| Balance, beginning of period | 841,801 | 20,000 |
| Net change during the period | <u>(560,000)</u> | <u>(210,500)</u> |
| Balance, end of period | <u>281,801</u> | <u>(190,500)</u> |

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

X-Terra Resources Corporation

(an exploration stage company)

Consolidated Statements of Cash Flows

For the three-month period ended March 31, 2010 and 2009

(unaudited)

| | 2010 \$ | 2009 \$ |
|--|------------------|------------------|
| Cash flows from | | |
| Operating activities | | |
| Net loss for the period | (315,309) | (112,333) |
| Adjustments for: | | |
| Unrealized loss on investments held for trading | 232,000 | 34,316 |
| Amortization of property, plant and equipment | 657 | 917 |
| | <u>(82,652)</u> | <u>(77,100)</u> |
| Changes in non-cash operating working capital items | 17,561 | 77,386 |
| | <u>(65,091)</u> | <u>286</u> |
| Financing activity | | |
| Purchase of shares under normal course issuer bid | - | (48,500) |
| | <u>-</u> | <u>(48,500)</u> |
| Investing activities | | |
| Acquisition of mining and oil and gas properties | (230) | (291) |
| Deferred exploration expenses | (40,975) | (71,759) |
| | <u>(41,205)</u> | <u>(72,050)</u> |
| Decrease in cash and cash equivalents during the period | (106,296) | (120,264) |
| Cash and cash equivalents – Beginning of period | <u>2,609,361</u> | <u>4,296,385</u> |
| Cash and cash equivalents – End of period | <u>2,503,065</u> | <u>4,176,121</u> |
| Cash and cash equivalents include: | | |
| Cash on hand and bank balances | 428,374 | 3,107,604 |
| Money market fund | 2,074,691 | 1,068,517 |
| | <u>2,503,065</u> | <u>4,176,121</u> |

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

X-Terra Resources Corporation

(an exploration stage company)

Notes to Interim Consolidated Financial Statements

As at March 31, 2010

(unaudited)

1 Nature of operations

X-Terra Resources Corporation (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.

The Company is in the process of exploring its mining and oil and gas property interests and has not yet determined whether they contain mineral deposits that are economically recoverable. The Company will periodically have to find additional funds to continue its exploration activities, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future.

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 future profitable production or proceeds from the disposal of properties.

The unaudited interim consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”), except that they do not contain all disclosures as required for audited annual financial statements. The unaudited interim consolidated financial statements have been prepared following the same accounting policies as for the consolidated financial statements for the year ended December 31, 2009. Accordingly, they should be read in conjunction with the 2009 consolidated financial statements and the notes thereto. In the opinion of management, all adjustments considered necessary for fair presentation of the results for the periods presented have been reflected in the unaudited interim consolidated financial statements. All dollar amounts are disclosed in Canadian dollars.

As at March 31, 2010, the Company holds the Lindsay, Cool Lake, Rimouski, Rimouski North and Shawinigan properties and has cash and cash equivalents totalling \$2,503,065 and working capital of \$4,901,860.

X-Terra Resources Corporation

(an exploration stage company)

Notes to Interim Consolidated Financial Statements

As at March 31, 2010

(unaudited)

2 Investments

| | As at March 31, 2010 | | As at December 31, 2009 | |
|---------------------------------------|-------------------------|---------------------|-------------------------------|---------------------|
| | Carrying value \$ | Fair value \$ | Carrying value \$ | Fair value \$ |
| Investments available for sale | | | | |
| Common shares of public companies* | 1,200,000 | 1,200,000 | 1,760,000 | 1,760,000 |
| Investments held for trading | | | | |
| Warrants of public companies* | 58,000 | 58,000 | 290,000 | 290,000 |
| | <u>1,258,000</u> | <u>1,258,000</u> | <u>2,050,000</u> | <u>2,050,000</u> |

* These investments are the result of a transaction completed on October 28, 2008 between the Company and Brownstone Ventures Inc. ("Brownstone") to which the Company sold a 50% interest in exploration licences in exchange for 2,000,000 common shares and 2,000,000 common share purchase warrants. Each purchase warrant entitles the Company to purchase one common share of Brownstone at a price of \$2 until October 28, 2010. The exploration licences sold are related to the Rimouski, Rimouski North and Shawinigan mining and oil and gas properties (note 5).

The fair value of warrants is determined through the use of Black-Scholes pricing models as they are not traded on any public stock exchange.

For the three-month period ended March 31, 2010, the Company recognized an unrealized loss of \$560,000 (2009 – \$210,500) on common shares of a public company designated as available for sale in other comprehensive income and a \$232,000 unrealized loss (2009 – \$34,316) on warrants of a public company classified as held for trading was included in net loss for the quarter.

3 Accounts receivable

| | As at March 31, 2010 | As at December 31, 2009 |
|--|----------------------------|-------------------------------|
| Refundable tax credits and mining duties | 85,962 | 85,962 |
| Sales taxes | 17,949 | 9,695 |
| Receivable from a partner | 76,534 | 67,718 |
| Advance for shale gas permits | 16,150 | 16,150 |
| Interest income receivable | 9,523 | - |
| | <u>206,118</u> | <u>179,525</u> |

X-Terra Resources Corporation

(an exploration stage company)

Notes to Interim Consolidated Financial Statements

As at March 31, 2010

(unaudited)

4 Property, plant and equipment

| | | | As at March 31, 2010 | As at December 31, 2009 |
|-----------------------------|------------|-----------------------------------|----------------------------|-------------------------------|
| | Cost \$ | Accumulated amortization \$ | Net value \$ | Net value \$ |
| Computer equipment/software | 11,952 | 5,374 | 6,578 | 7,111 |
| Office furniture | 3,440 | 1,087 | 2,353 | 2,477 |
| | 15,392 | 6,461 | 8,931 | 9,588 |

All property, plant and equipment are located in Canada.

5 Mining and oil and gas properties

| Property | Number of claims/ Number of permits | Undivided interest % | As at December 31, 2009 \$ | Net additions \$ | As at March 31, 2010 \$ |
|----------------|--|----------------------------|-------------------------------------|------------------------|----------------------------------|
| Lindsay | 25 | 100 | 978,444 | 230 | 978,674 |
| Cool Lake | 40 | 100 | 2,172 | - | 2,172 |
| Rimouski | 2 | 50 | 4,004 | - | 4,004 |
| Rimouski North | 3 | 50 | 5,272 | - | 5,272 |
| Shawinigan | 3 | 50 | 6,763 | - | 6,763 |
| | | | 996,655 | 230 | 996,885 |

All mining and oil and gas properties are located in Canada.

X-Terra Resources Corporation

(an exploration stage company)

Notes to Interim Consolidated Financial Statements

As at March 31, 2010

(unaudited)

6 Deferred exploration expenses

| Property | Percentage interest % | As at December 31, 2009 \$ | Net additions \$ | As at March 31, 2010 \$ |
|----------------|-----------------------------|-------------------------------------|------------------------|----------------------------------|
| Lindsay | 100 | 415,159 | 32,117 | 447,276 |
| Cool Lake | 100 | 34,892 | 43 | 34,935 |
| Rimouski | 50 | 14,434 | 2,743 | 17,177 |
| Rimouski North | 50 | 15,849 | 2,743 | 18,592 |
| Shawinigan | 50 | 12,002 | 2,744 | 14,746 |
| Trois-Pistoles | 50 | - | 585 | 585 |
| | | <u>492,336</u> | <u>40,975</u> | <u>533,311</u> |

| | Three-month period ended March 31, 2010 \$ | Three-month period ended March 31, 2009 \$ |
|--|--|--|
| Exploration expenses | | |
| Accommodations | 4,390 | 3,000 |
| Maps, printing and drafting | 230 | - |
| Assay and geochemical analysis | 488 | - |
| Geology | 22,922 | 42,000 |
| Drilling | 11,398 | - |
| Project management fees | 1,547 | - |
| | <u>40,975</u> | <u>45,000</u> |
| Increase in deferred exploration expenses | | |
| | <u>492,336</u> | <u>377,451</u> |
| Balance – Beginning of period | | |
| | <u>533,311</u> | <u>422,451</u> |

X-Terra Resources Corporation

(an exploration stage company)

Notes to Interim Consolidated Financial Statements

As at March 31, 2010

(unaudited)

7 Share capital and warrants and brokers' options

Share capital

Authorized and issued

Unlimited common shares without par value, of which 11,783,069 common shares were issued and outstanding as at March 31, 2010 (December 31, 2009: 11,783,069).

Warrants and brokers' options

The following table details the changes in the Company's warrants and brokers' options:

| | Number of warrants | Number of brokers' options | Amount \$ |
|------------------------------------|-----------------------|----------------------------------|------------------|
| Balance – December 31, 2009 | 5,800,000 | 400,000 | 1,736,775 |
| Exercised | - | - | - |
| Balance – March 31, 2010 | <u>5,800,000</u> | <u>400,000</u> | <u>1,736,775</u> |

Information relating to warrants and brokers' options outstanding as at March 31, 2010 is as follows:

| Expiry date | Number of warrants outstanding | Number of broker's options outstanding | Exercise price \$ |
|-------------------------|--------------------------------------|--|-------------------------|
| May 2010 ⁽¹⁾ | 650,000 | - | 0.70 |
| July 2010 | - | 400,000 | 1.00 |
| July 2010 | 5,000,000 | - | 1.50 |
| February 2011 | 150,000 | - | 1.50 |
| | <u>5,800,000</u> | <u>400,000</u> | |

⁽¹⁾ In May 2009, the Company has announced the extension of the expiry date of these warrants from May 28, 2009 to May 28, 2010.

X-Terra Resources Corporation

(an exploration stage company)

Notes to Interim Consolidated Financial Statements

As at March 31, 2010

(unaudited)

8 Stock options

The Company applies the fair value method of accounting for stock options, and accordingly the fair value of the vested portion of stock options.

As at March 31, 2010, there are 995,000 options outstanding at a weighted average exercise price of \$1.20.

Information relating to options outstanding and exercisable as at March 31, 2010 is as follows:

| Exercise price \$ | Options outstanding | Weighted average remaining contracted life (years) | Options exercisable | Weighted average remaining contracted life (years) |
|----------------------|------------------------|---|------------------------|--|
| 1.10 | 60,000 | 2.2 | 60,000 | 2.2 |
| 1.90 | 375,000 | 3.17 | 375,000 | 3.17 |
| 1.00 | 270,000 | 3.41 | 270,000 | 3.41 |
| 0.50 | 290,000 | 4.25 | 290,000 | 4.25 |
| | <u>995,000</u> | <u>3.49</u> | <u>995,000</u> | <u>3.49</u> |

9 Related party transactions

Related party transactions occurred in the normal course of business and were recorded at the exchange values, which is the consideration determined and agreed to by the related parties. Unless indicated otherwise, the following transactions are included in general administrative expenses for the three-month period ended March 31:

| | 2010 \$ | 2009 \$ |
|---|---------------|---------------|
| 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 | 32,910 | 37,560 |
| | <u>56,910</u> | <u>61,560</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.

10 Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted for the period ended March 31, 2010.