



**X-TERRA**

**RESOURCES CORPORATION**

**X-TERRA RESOURCES CORPORATION**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
THREE-MONTH PERIOD ENDED JUNE 30, 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



**X·TERRA**

**RESOURCES CORPORATION**

**NOTICE**

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

(Signed)

Sylvain Champagne  
Chief Financial Officer

Rouyn-Noranda, Québec  
August 27, 2010

# X-Terra Resources Corporation

(an exploration stage company)

## Consolidated Balance Sheets

(unaudited)

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	2,269,972	2,609,361
Marketable securities	1,008,570	1,008,570
Investments (note 2)	822,000	2,050,000
Accounts receivable (note 3)	210,702	179,525
Prepaid expenses	2,610	5,743
	<u>4,313,854</u>	<u>5,853,199</u>
<b>Property, plant and equipment</b> (note 4)	15,489	9,588
<b>Mining and oil and gas properties</b> (note 5)	996,885	996,655
<b>Deferred exploration expenses</b> (note 6)	656,959	492,336
	<u>5,983,187</u>	<u>7,351,778</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	62,689	35,482
<b>Shareholders' Equity</b>		
<b>Share capital</b> (note 7)	25,440,232	25,440,232
<b>Warrants and brokers' options</b> (note 7)	1,445,827	1,736,775
<b>Contributed surplus</b>	2,419,660	2,070,212
<b>Deficit</b>	(23,287,022)	(22,772,724)
<b>Accumulated other comprehensive income</b>	(98,199)	841,801
	<u>5,920,498</u>	<u>7,316,296</u>
	<u>5,983,187</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 periods ended June 30, 2010 and 2009

(unaudited)

	Three-month periods ended June 30 /		Six-month periods ended June 30	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>Administrative expenses</b>				
Insurance	2,057	1,812	4,113	4,815
Professional fees	9,520	33,988	32,020	40,292
General administrative expenses	77,919	73,754	141,346	148,763
Shareholders' communication	4,352	6,523	4,777	7,729
Transfer agent and regulatory fees	3,499	2,904	9,974	9,086
Stock-based compensation	58,500	-	58,500	-
Amortization of property, plant and equipment (note 4)	1,242	917	1,899	1,834
	<u>157,089</u>	<u>119,898</u>	<u>252,629</u>	<u>212,519</u>
<b>Other expenses (income)</b>				
Interest income	(14,100)	(5,949)	(26,331)	(20,553)
Unrealized loss (gain) on short-term investments held for trading (note 2)	56,000	(48,000)	288,000	(13,684)
	<u>41,900</u>	<u>(53,949)</u>	<u>261,669</u>	<u>(34,237)</u>
<b>Net loss for the period</b>	<u>198,989</u>	<u>65,949</u>	<u>514,298</u>	<u>178,282</u>
<b>Deficit – Beginning of period</b>	<u>(23,088,033)</u>	<u>(22,738,064)</u>	<u>(22,772,724)</u>	<u>(22,625,731)</u>
<b>Deficit – End of period</b>	<u>(23,287,022)</u>	<u>(22,804,013)</u>	<u>(23,287,022)</u>	<u>(22,804,013)</u>
<b>Basic and diluted net loss per share</b>	<u>0.02</u>	<u>0.01</u>	<u>0.04</u>	<u>0.02</u>
<b>Weighted average number of basic and diluted shares outstanding</b>	<u>11,783,069</u>	<u>11,822,794</u>	<u>11,783,069</u>	<u>11,868,136</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 periods ended June 30, 2010 and 2009

(unaudited)

	Three-month periods ended June 30 / Six-month periods ended June 30			
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>Net loss for the period</b>	(198,989)	(65,949)	(514,298)	(178,282)
<b>Other comprehensive income</b>				
Unrealized gain (loss) on available-for-sale short-term investments (note 2)	(380,000)	280,000	(940,000)	69,500
<b>Comprehensive income for the period</b>	<u>(578,989)</u>	<u>214,051</u>	<u>(1,454,298)</u>	<u>(108,782)</u>
 <b>Accumulated other comprehensive income:</b>				
<b>Balance, beginning of period</b>	281,801	(190,500)	841,801	20,000
Net change during the period	<u>(380,000)</u>	<u>280,000</u>	<u>(940,000)</u>	<u>69,500</u>
<b>Balance, end of period</b>	<u>(98,199)</u>	<u>89,500</u>	<u>(98,199)</u>	<u>89,500</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 periods ended June 30, 2010 and 2009

(unaudited)

	Three-month periods ended June 30 / Six-month periods ended June 30			
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>Cash flows from</b>				
<b>Operating activities</b>				
Net loss for the period	(198,989)	(65,949)	(514,298)	(178,282)
Adjustments for:				
Unrealized loss (gain) on short-term investments held for trading (note 2)	56,000	(48,000)	288,000	(13,684)
Stock-based compensation	58,500	-	58,500	-
Amortization of property, plant and equipment (note 4)	1,242	917	1,899	1,834
	(83,247)	(113,032)	(165,899)	(190,132)
Changes in non-cash operating working capital items	(18,398)	(6,788)	(837)	70,598
	(101,645)	(119,820)	(166,736)	(119,534)
<b>Financing activity</b>				
Purchase of shares under normal course issuer bid	-	(45,380)	-	(93,880)
	-	(45,380)	-	(93,880)
<b>Investing activities</b>				
Acquisition of property, plant and equipment	(7,800)	-	(7,800)	-
Acquisition of mining and oil and gas properties	-	-	(230)	(291)
Deferred exploration expenses	(123,648)	(45,520)	(164,623)	(117,279)
	(131,448)	(45,520)	(172,653)	(117,570)
<b>Decrease in cash and cash equivalents during the period</b>	(233,093)	(210,720)	(339,389)	(330,984)
<b>Cash and cash equivalents – Beginning of period</b>	2,503,065	4,176,121	2,609,361	4,296,385
<b>Cash and cash equivalents – End of period</b>	2,269,972	3,965,401	2,269,972	3,965,401
<b>Cash and cash equivalents include:</b>				
Cash on hand and bank balances	171,708	282,924		
Money market fund	2,098,264	3,682,477		
	2,269,972	3,965,401		

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 June 30, 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 June 30, 2010, the Company holds the Lindsay, Cool Lake, Rimouski, Rimouski North and Shawinigan properties and has cash and cash equivalents totalling \$2,269,972 and working capital of \$4,251,165.

# X-Terra Resources Corporation

(an exploration stage company)

Notes to Interim Consolidated Financial Statements

As at June 30, 2010

(unaudited)

## 2 Investments

	As at June 30, 2010		As at December 31, 2009	
	Carrying value \$	Fair value \$	Carrying value \$	Fair value \$
<b>Investments available for sale</b>				
Common shares of public companies*	820,000	820,000	1,760,000	1,760,000
<b>Investments held for trading</b>				
Warrants of public companies*	2,000	2,000	290,000	290,000
	<u>822,000</u>	<u>822,000</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 six-month period ended June 30, 2010, the Company recognized an unrealized loss of \$940,000 (2009 – gain of \$69,500) on common shares of a public company designated as available for sale in other comprehensive income and a \$288,000 unrealized loss (2009 – gain of \$13,684) on warrants of a public company classified as held for trading was included in net loss for the period.

## 3 Accounts receivable

	As at June 30, 2010	As at December 31, 2009
Refundable tax credits and mining duties	85,962	85,962
Sales taxes	28,402	9,695
Receivable from a partner	80,188	67,718
Advance for shale gas permits	16,150	16,150
	<u>210,702</u>	<u>179,525</u>

# X-Terra Resources Corporation

(an exploration stage company)

Notes to Interim Consolidated Financial Statements

As at June 30, 2010

(unaudited)

## 4 Property, plant and equipment

			As at June 30, 2010	As at December 31, 2009
	Cost \$	Accumulated amortization \$	Net value \$	Net value \$
Computer equipment/software	11,952	5,907	6,045	7,111
Office furniture	3,440	1,211	2,229	2,477
Exploration equipment	7,800	585	7,215	-
	<u>23,192</u>	<u>7,703</u>	<u>15,489</u>	<u>9,588</u>

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 June 30, 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
			<u>996,655</u>	<u>230</u>	<u>996,885</u>

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 June 30, 2010

(unaudited)

## 6 Deferred exploration expenses

Property	Percentage interest %	As at December 31, 2009 \$	Net additions \$	As at June 30, 2010 \$
Lindsay	100	415,159	151,887	567,046
Cool Lake	100	34,892	108	35,000
Rimouski	50	14,434	4,014	18,448
Rimouski North	50	15,849	4,014	19,863
Shawinigan	50	12,002	4,015	16,017
Trois-Pistoles	50	-	585	585
		<u>492,336</u>	<u>164,623</u>	<u>656,959</u>

Three-month periods ended June 30 / Six-month periods ended June 30

	2010 \$	2009 \$	2010 \$	2009 \$
<b>Exploration costs</b>				
Accommodations	3,750	3,500	8,140	6,500
Maps, printing and drafting	-	1,500	230	1,500
Assay and geochemical analysis	4,817	-	5,305	-
Geology	19,069	36,800	41,991	78,800
Geophysics	-	3,600	-	3,600
Drilling	89,611	-	101,009	-
Project management fees	6,401	120	7,948	120
	<u>123,648</u>	<u>45,520</u>	<u>164,623</u>	<u>90,520</u>
<b>Increase in deferred exploration expenses</b>				
	<u>533,311</u>	<u>422,451</u>	<u>492,336</u>	<u>377,451</u>
<b>Balance – Beginning of period</b>				
	<u>656,959</u>	<u>467,971</u>	<u>656,959</u>	<u>467,971</u>
<b>Balance – End of period</b>				

# X-Terra Resources Corporation

(an exploration stage company)

Notes to Interim Consolidated Financial Statements

As at June 30, 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 June 30, 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 \$
<b>Balance – December 31, 2009</b>	5,800,000	400,000	1,736,775
Expired	(650,000)	-	(290,948)
<b>Balance – June 30, 2010</b>	<u>5,150,000</u>	<u>400,000</u>	<u>1,445,827</u>

Information relating to warrants and brokers' options outstanding as at June 30, 2010 is as follows:

Expiry date	Number of warrants outstanding	Number of broker's options outstanding	Exercise price \$
July 2010	-	400,000	1.00
July 2013 <sup>(1)</sup>	5,000,000	-	1.50
February 2011	150,000	-	1.50
	<u>5,150,000</u>	<u>400,000</u>	

<sup>(1)</sup> In June 2010, the Company has announced the extension of the expiry date of these warrants from July 11, 2010 to July 11, 2013.

# X-Terra Resources Corporation

(an exploration stage company)

Notes to Interim Consolidated Financial Statements

As at June 30, 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. For the three-month period ended June 30, 2010, there is \$58,500 (2009 – nil) which has been included in administrative expenses.

The following table summarizes information relating to the share purchase options for the six-month period ended June 30, 2010:

	Options outstanding	Weighted average exercise price \$
<b>Balance – December 31, 2009</b>	995,000	1.20
Granted	<u>180,000</u>	<u>0.35</u>
<b>Balance – June 30, 2010</b>	<u>1,175,000</u>	<u>1.07</u>

The options, when granted, are accounted for at their fair value determined by the Black-Scholes pricing model, based on the vesting period and on the following weighted average assumptions:

Average dividend per share	Nil
Volatility	110%
Risk-free interest rate	3.08%
Weighted average expected life	10 years
Weighted average fair value of options granted	\$0.325

Information relating to options outstanding and exercisable as at June 30, 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	1.95	60,000	1.95
1.90	375,000	2.92	375,000	2.92
1.00	270,000	3.16	270,000	3.16
0.50	290,000	4	290,000	4
0.35	<u>180,000</u>	10	<u>180,000</u>	10
	<u>1,175,000</u>	<u>4.28</u>	<u>1,175,000</u>	<u>4.28</u>

# X-Terra Resources Corporation

(an exploration stage company)

Notes to Interim Consolidated Financial Statements

As at June 30, 2010

(unaudited)

## 9 Contributed surplus

The following are the changes in the Company's contributed surplus:

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	\$	\$
Balance – Beginning of year	2,070,212	1,153,105
Stock-based compensation	58,500	69,020
Warrants expired	290,948	145,770
Shares cancelled	-	97,205
Shares purchased and cancelled	-	605,112
	<hr/>	<hr/>
Balance – End of period	<u>2,419,660</u>	<u>2,070,212</u>

## 10 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 periods ended June 30:

	<b>2010</b>	<b>2009</b>
	\$	\$
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	43,110	38,415
	<hr/>	<hr/>
	<u>67,110</u>	<u>62,415</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.

## 11 Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted for the period ended June 30, 2010.