



X·TERRA

RESOURCES CORPORATION

X-TERRA RESOURCES CORPORATION

**UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SIX-MONTH PERIOD ENDED JUNE 30, 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
August 26, 2011

X-Terra Resources Corporation

Interim Consolidated Balance Sheets

(Unaudited)

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

	June 30, 2011 \$	December 31, 2010 \$
Assets		
Current assets		
Cash and cash equivalents	1,939,145	2,133,942
Marketable securities	1,028,775	1,022,970
Investments (note 6)	1,600,000	1,980,000
Accounts receivable	27,644	88,743
Tax credits receivable	149,322	126,609
Prepaid insurance	2,622	5,744
	<u>4,747,508</u>	<u>5,358,008</u>
Non-current assets		
Property, plant and equipment	16,640	17,535
Mining and oil and gas properties (note 7)	1,002,148	1,001,967
Deferred exploration expenses (note 8)	625,188	583,006
	<u>1,643,976</u>	<u>1,602,508</u>
Total Assets	<u>6,391,484</u>	<u>6,960,516</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	81,729	71,758
Total Liabilities	<u>81,729</u>	<u>71,758</u>
Equity		
Share capital	25,466,499	25,466,499
Warrants and brokers' options	1,840,527	1,848,627
Contributed surplus	2,684,960	2,676,860
Accumulated other comprehensive income	652,211	1,032,211
Deficit	(24,334,442)	(24,135,439)
Total Equity	<u>6,309,755</u>	<u>6,888,758</u>
Total Liabilities and Equity	<u>6,391,484</u>	<u>6,960,516</u>

X-Terra Resources Corporation

Interim Consolidated Statement of Loss

(Unaudited)

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

	Three-month periods ended June 30 / Six-month periods ended June 30			
	2011	2010	2011	2010
	\$	(Note 5) \$	\$	(Note 5) \$
Expenses				
Professional fees	40,500	9,520	41,069	32,020
Consulting fees	56,405	61,110	112,400	112,020
Public company expenses	10,188	7,851	17,543	14,751
Office and general	23,882	8,993	35,205	17,648
Conference and promotion	10,072	9,873	28,408	15,791
Share-based compensation	-	58,500	-	58,500
Depreciation and amortization	1,288	1,242	2,495	1,899
Operating loss	142,335	157,089	237,120	252,629
Finance income	(16,357)	(14,100)	(32,312)	(26,331)
Unrealized loss (gain) on investments at fair value through profit or loss	(8,045)	56,000	(5,805)	288,000
	(24,402)	41,900	(38,117)	261,669
Net loss for the period	117,933	198,989	199,003	514,298
Basic and diluted net loss per share	0.01	0.02	0.02	0.04
Weighted average number of basic and diluted shares outstanding	11,783,069	11,783,069	11,783,069	11,783,069

X-Terra Resources Corporation

Interim Consolidated Statements of Comprehensive Loss

(Unaudited)

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

	Three-month periods ended June 30 / Six-month periods ended June 30			
	2011	2010	2011	2010
	\$	\$	\$	\$
Net loss for the period	117,933	198,989	199,003	514,298
Other comprehensive loss				
Changes in fair value of available-for-sale investments (Note 6)	740,000	380,000	380,000	940,000
Other comprehensive loss for the period	740,000	380,000	380,000	940,000
Comprehensive loss for the period	857,933	578,989	579,003	1,454,298

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	-	-	-	-	-	(199,003)	(199,003)
Other comprehensive loss	-	-	-	-	(380,000)	-	(380,000)
Total comprehensive income (loss) for the period	-	-	-	-	(380,000)	(199,003)	(579,003)
Fair value of warrants expired	-	-	(8,100)	8,100	-	-	-
Balance – June 30, 2011	11,783,069	25,466,499	1,840,527	2,684,960	652,211	(24,334,442)	6,309,755
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	-	-	-	-	-	(514,298)	(514,298)
Other comprehensive loss	-	-	-	-	(940,000)	-	(940,000)
Total comprehensive loss for the period	-	-	-	-	(940,000)	(514,298)	(1,454,298)
Stock-based compensation	-	-	-	58,500	-	-	58,500
Fair value of warrants expired	-	-	(290,948)	290,948	-	-	-
Balance – June 30, 2010	11,783,069	25,466,499	1,445,827	2,419,660	(98,199)	(23,313,289)	5,920,498

X-Terra Resources Corporation

Interim Consolidated Statements of Cash Flows

(Unaudited)

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

	Three-month periods ended June 30 / Six-month periods ended June 30			
	2011	2010	2011	2010
	\$	\$	\$	\$
Cash flows provided by (used in)				
Operating activities				
Net loss for the period	(117,933)	(198,989)	(199,003)	(514,298)
Adjustments for:				
Stock-based compensation	-	58,500	-	58,500
Depreciation and amortization	1,288	1,242	2,495	1,899
Unrealized loss (gain) arising from fair value changes on investment at fair value through profit or loss	(8,045)	56,000	(5,805)	288,000
	<u>(124,690)</u>	<u>(83,247)</u>	<u>(202,313)</u>	<u>(165,899)</u>
Changes in non-cash operating working capital items				
Accounts receivable	5,699	(4,584)	61,099	(31,177)
Tax credit receivable	-	-	-	-
Prepaid insurance	2,061	2,058	3,122	3,133
Amounts payable and accrued liabilities	(3,494)	(15,872)	9,971	27,207
	<u>4,266</u>	<u>(18,398)</u>	<u>74,192</u>	<u>(837)</u>
Net cash used in operating activities	<u>(120,424)</u>	<u>(101,645)</u>	<u>(128,121)</u>	<u>(166,736)</u>
Investing activities				
Expenditures on property, plant and equipment	(1,600)	(7,800)	(1,600)	(7,800)
Expenditures on mining and oil and gas properties	-	-	(181)	(230)
Expenditures on deferred exploration expenses	(27,986)	(123,648)	(64,895)	(164,623)
Net cash used in investing activities	<u>(29,586)</u>	<u>(131,448)</u>	<u>(66,676)</u>	<u>(172,653)</u>
Net variation in cash and cash equivalents	(150,010)	(233,093)	(194,797)	(339,389)
Cash and cash equivalents – Beginning of period	<u>2,089,155</u>	<u>2,503,065</u>	<u>2,133,942</u>	<u>2,609,361</u>
Cash and cash equivalents – End of period	<u>1,939,145</u>	<u>2,269,972</u>	<u>1,939,145</u>	<u>2,269,972</u>
Components of cash and cash equivalents are as follows, as at June 30:				
Cash	79,411	171,708		
Cash equivalents	1,859,734	2,098,264		
Supplemental information				
Income tax paid	-	-	-	-
Interest paid	-	-	-	-
Mining and oil and gas properties included in accounts payable and accrued liabilities	-	-	-	-
Deferred exploration expenses included in accounts payable and accrued liabilities	10,089	17,976	10,089	17,976

X-Terra Resources Corporation

Notes to condensed interim Consolidated financial statements

(Unaudited) For the six-month periods ended June 30, 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 June 30, 2011, the Company had working capital of \$4,665,779 (December 31, 2010 – \$5,286,250) including cash and cash equivalents of \$1,939,145 (December 31, 2010 – \$2,133,942) and accumulated deficit of \$24,334,442 (December 31, 2010 – \$24,135,439), had incurred a loss of \$117,933 (June 30, 2010 – \$198,989) for the three-month period then ended and had incurred a loss of \$199,003 (June 30, 2010 – \$514,298) for the six-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 August 26, 2011.

X-Terra Resources Corporation

Notes to condensed interim Consolidated financial statements
(Unaudited) For the six-month periods ended June 30, 2011 and 2010
(expressed in Canadian dollars, except share and per share amounts)

2 Basis of preparation and adoption of IFRS

The accompanying consolidated financial statements have been prepared using the same accounting policies as those used in the Company's condensed interim consolidated financial statements for the three months ended March 31, 2011. The accounting policies are in accordance with Canadian generally accepted accounting principles as set out in Part 1 of the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate the International Financial Reporting Standards ("IFRS"), as published by the International Accounting Standards Board, 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 its condensed interim consolidated financial statements for the three months ended March 31, 2011. In these condensed interim consolidated financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, Interim Financial Reporting, and IFRS 1, First-time Adoption of International Financial Reporting Standards. Subject to certain transition elections disclosed in note 5, the Company has consistently applied the same accounting policies in its opening IFRS balance sheet at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 5 discloses the impact of the transition to IFRS on the Company's reported financial position as at June 30, 2010, on the Company's financial performance for the three months and six months ended June 30, 2010 and on the Company's cash flows for the six months and the three months ended June 30, 2010. The impact of the transition to IFRS on the Company's reported financial position as at January 1, 2010, March 31, 2010 and December 31, 2010, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010, are presented in the condensed interim consolidated financial statements for the three months ended March 31, 2011.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued as of August 26, 2011, the date the Board of Directors approved the financial statements. 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 restatement of these condensed interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS and presented in the condensed interim consolidated financial statements for the three months ended March 31, 2011.

The condensed interim consolidated financial statements should be read in conjunction with the Company's IFRS condensed interim consolidated financial statements for the three months ended March 31, 2011 and the Company's Canadian GAAP annual consolidated financial statements for the year ended December 31, 2010.

X-Terra Resources Corporation

Notes to condensed interim Consolidated financial statements
(Unaudited) For the six-month periods ended June 30, 2011 and 2010
(expressed in Canadian dollars, except share and per share amounts)

3 New accounting standards not yet adopted

The following new accounting standards issued but not yet applied by the Company are presented in the condensed interim consolidated financial statements for the three months ended March 31, 2011 :

IFRS 9 - Financial instruments - classification and measurement
IFRS 10 - Consolidation
IFRS 11 - Joint Arrangements
IFRS 12 - Disclosure of Interests in Other Entities
IFRS 13 - Fair Value Measurement

The following new accounting standards were issued in the meantime but not yet applied by the Company :

IAS 1, Presentation of Financial Statements, ("IAS 1")

IAS 1 was amended to change the disclosure of items presented in Other comprehensive income ("OCI"), including a requirement to separate items presented in OCI into two groups based on whether or not they may be recycled to profit or loss in the future. This amendment is required to be applied for years beginning on or after July 1, 2012. The Company has not yet assessed the impact of the amendment.

4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company also makes estimates and assumptions concerning the future. The determination of estimates requires the exercise of judgment based on various assumptions and other factors such as historical experience and current and expected economic conditions. Actual results could differ from those estimates.

The more significant areas requiring the use of management estimates and assumptions are presented in the condensed interim consolidated financial statements for the three months ended March 31, 2011.

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

X-Terra Resources Corporation

Notes to condensed interim Consolidated financial statements
(Unaudited) For the six-month periods ended June 30, 2011 and 2010
(expressed in Canadian dollars, except share and per share amounts)

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) Reconciliation of balance sheet, equity, statement of income (loss) and comprehensive income (loss) as previously reported under Canadian GAAP to IFRS and explanatory notes;
- b) Adjustments to the statement of cash flows;

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

	June 30, 2010		
Ref.	Canadian GAAP \$	Adj. \$	IFRS \$
Assets			
Current assets			
Cash and cash equivalents	2,269,972	–	2,269,972
Marketable securities	1,008,570	–	1,008,570
Investments	822,000	–	822,000
Accounts receivable	124,740	–	124,740
Tax credits receivable	85,962	–	85,962
Prepaid insurance	2,610	–	2,610
	<u>4,313,854</u>	<u>–</u>	<u>4,313,854</u>
Non-current assets			
Property, plant and equipment	15,489	–	15,489
Mineral and oil gas properties	996,885	–	996,885
Deferred exploration expenses	656,959	–	656,959
	<u>1,669,333</u>	<u>–</u>	<u>1,669,333</u>
Total Assets	<u>5,983,187</u>	<u>–</u>	<u>5,983,187</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	62,689	–	62,689
Total Liabilities	<u>62,689</u>	<u>–</u>	<u>62,689</u>
Equity			
Share Capital	25,440,232	26,267	25,466,499
Warrants and brokers’ options	1,445,827	–	1,445,827
Contributed surplus	2,419,660	–	2,419,660
Accumulated other comprehensive income	(98,199)	–	(98,199)
Deficit	(23,287,022)	(26,267)	(23,313,289)
Total Equity	<u>5,920,498</u>	<u>–</u>	<u>5,920,498</u>
Total Liabilities and Equity	<u>5,983,187</u>	<u>–</u>	<u>5,983,187</u>

X-Terra Resources Corporation

Notes to condensed interim Consolidated financial statements
(Unaudited) For the six-month periods ended June 30, 2011 and 2010
(expressed in Canadian dollars, except share and per share amounts)

Ref.	Three-month period ended June 30, 2010			Six-month periods ended June 30, 2010		
	Canadian GAAP \$	Adj. \$	IFRS \$	Canadian GAAP \$	Adj. \$	IFRS \$
Expenses						
Professional fees	9,520	–	9,520	32,020	–	32,020
Consulting fees	61,110	–	61,110	112,020	–	112,020
Public company expenses	7,851	–	7,851	14,751	–	14,751
Office and general	8,993	–	8,993	17,648	–	17,648
Conference and promotion	9,873	–	9,873	15,791	–	15,791
Share-based compensation	58,500	–	58,500	58,500	–	58,500
Depreciation and amortization	1,242	–	1,242	1,899	–	1,899
Impairment loss of mining, oil and gas properties	–	–	–	–	–	–
Impairment loss of deferred exploration expenses	–	–	–	–	–	–
Operating loss	157,089	–	157,089	252,629	–	252,629
Finance income	(14,100)	–	(14,100)	(26,331)	–	(26,331)
Unrealized loss on investments at fair value through profit or loss	56,000	–	56,000	288,000	–	288,000
Extension of warrants	–	–	–	–	–	–
	41,900	–	41,900	261,669	–	261,669
Loss before income tax	198,989	–	198,989	514,298	–	514,298
Deferred income tax expense (recovery)	–	–	–	–	–	–
Net loss for the period	198,989	–	198,989	514,298	–	514,298
Other comprehensive loss (income)						
Change in fair value of available-for-sale investments net of tax	380,000	–	380,000	940,000	–	940,000
Other comprehensive loss for the period	380,000	–	380,000	940,000	–	940,000
Comprehensive loss for the period	579,989	–	579,989	1,454,298	–	1,454,298

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.

X-Terra Resources Corporation

Notes to condensed interim Consolidated financial statements
(Unaudited) For the six-month periods ended June 30, 2011 and 2010
(expressed in Canadian dollars, except share and per share amounts)

b) 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.

6 Investments

Investments comprise:

	June 30, 2011	June 30, 2010	January 1, 2010
	\$	\$	\$
Common shares of public company	1,600,000	820,000	1,760,000
Warrants of public company	–	2,000	290,000
	<u>1,600,000</u>	<u>822,000</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>Six-month period ended June 30,</u>	
	2011	2010
	\$	\$
Available-for-sale financial assets	(280,000)	(940,000)
Financial assets designated at fair value through profit or loss	–	(288,000)
	<u>Three-month period ended June 30,</u>	
	2011	2010
	\$	\$
Available-for-sale financial assets	(740,000)	(380,000)
Financial assets designated at fair value through profit or loss	–	(56,000)

X-Terra Resources Corporation

Notes to condensed interim Consolidated financial statements

(Unaudited) For the six-month periods ended June 30, 2011 and 2010

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

7 Mining and oil and gas properties

Property	Number of claims or permits	Undivided interest %	Balance as at December 31, 2010 \$	Net acquisitions \$	Balance as at June 30, 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>	<u>181</u>	<u>1,002,148</u>

8 Deferred exploration expenses

Property	Undivided interest %	Balance as at December 31, 2010 \$	Increase \$	Refundable tax credits and mining duties \$	Balance as at June 30, 2011 \$
Lindsay	100	519,171	7,500	(2,625)	524,046
Rimouski	50	30,687	26,488	(9,271)	47,904
Rimouski North	50	32,813	26,228	(9,180)	49,861
Trois-Pistoles	50	335	4,679	(1,637)	3,377
		<u>583,006</u>	<u>64,895</u>	<u>(22,713)</u>	<u>625,188</u>

9 Share purchase options

Information relating to options outstanding and exercisable as at June 30, 2011 is as follows:

Options outstanding	Weighted average remaining contractual life	Exercise price \$
60,000	0.95 year	1.10
375,000	1.92 years	1.90
270,000	2.16 years	1.00
290,000	3 years	0.50
<u>180,000</u>	9 years	0.35
<u>1,175,000</u>		