

X-Terra Resources Corporation

Unaudited Condensed Interim Consolidated Financial Statements
Six-month period ended June 30, 2012

(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 Corporation's audited consolidated financial statements for the year ended December 31, 2011. 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.

The Board of Directors is responsible for reviewing and approving the unaudited condensed interim consolidated financial statements together with other financial information of the Corporation 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 Corporation. 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 Corporation 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 Corporation's external auditors.

Management recognizes its responsibility for conducting the Corporation'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 29, 2012

X-Terra Resources Corporation
Interim Consolidated Statements of Financial Position
(expressed in Canadian dollars)
(Unaudited)

	Note	As at June 30, 2012 \$	As at December 31, 2011 \$
Assets			
Current assets			
Cash and cash equivalents		1,661,665	1,858,836
Marketable securities		1,022,120	1,025,550
Investments	3	440,000	760,000
Accounts receivable		33,556	14,909
Tax credits receivable		34,388	26,806
Prepaid insurance		2,500	5,603
		<u>3,194,229</u>	<u>3,691,704</u>
Non-current assets			
Property, plant and equipment		12,266	14,144
Mining and oil and gas properties	4	1,024,638	1,014,765
Deferred exploration expenses	5	632,119	618,039
		<u>1,669,023</u>	<u>1,646,948</u>
Total assets		<u>4,863,252</u>	<u>5,338,652</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		40,478	31,636
Total liabilities		<u>40,478</u>	<u>31,636</u>
Equity			
Share capital		25,466,499	25,466,499
Warrants and brokers' options		1,840,527	1,840,527
Contributed surplus		2,684,960	2,684,960
Accumulated other comprehensive loss		(348,151)	(28,151)
Deficit		(24,821,061)	(24,656,819)
Total equity		<u>4,822,774</u>	<u>5,307,016</u>
Total liabilities and equity		<u>4,863,252</u>	<u>5,338,652</u>

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

X-Terra Resources Corporation

Interim Consolidated Statements of Loss

(expressed in Canadian dollars)

(Unaudited)

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

	2012	2011	2012	2011
	\$	\$	\$	\$
Expenses				
Professional fees	36,210	40,500	41,063	41,069
Consulting fees	41,494	56,405	85,714	112,400
Public company expenses	7,071	10,188	13,615	17,543
Office and general	11,829	23,882	36,813	35,205
Conference and promotion	6,211	10,072	11,602	28,408
Depreciation	939	1,288	1,878	2,495
	<hr/>	<hr/>	<hr/>	<hr/>
Operating loss	103,754	142,335	190,685	237,120
	<hr/>	<hr/>	<hr/>	<hr/>
Finance income	(14,881)	(16,357)	(29,873)	(32,312)
Loss (gain) on marketable securities and investments at fair value through profit or loss	2,850	(8,045)	3,430	(5,805)
	<hr/>	<hr/>	<hr/>	<hr/>
	(12,031)	(24,402)	(26,443)	(38,117)
	<hr/>	<hr/>	<hr/>	<hr/>
Net loss for the period	91,723	117,933	164,242	199,003
	<hr/>	<hr/>	<hr/>	<hr/>
Basic and diluted net loss per share	0.00	0.01	0.01	0.02
	<hr/>	<hr/>	<hr/>	<hr/>
Weighted average number of basic and diluted shares outstanding	11,783,069	11,783,069	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

(expressed in Canadian dollars)

(Unaudited)

	Three-month periods ended June 30 / Six-month periods ended June 30			
	2012	2011	2012	2011
	\$	\$	\$	\$
Net loss for the period	91,723	117,933	164,242	199,003
Other comprehensive loss				
Changes in fair value of available-for-sale investments (Note 3)				
Unrealized loss	240,000	740,000	320,000	380,000
Other comprehensive loss for the period	240,000	740,000	320,000	380,000
Comprehensive loss for the period	331,723	857,933	484,242	579,003

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

(expressed in Canadian dollars)

(Unaudited)

	Number of common shares	Share Capital \$	Warrants and brokers' options \$	Contributed surplus \$	Accumulated other comprehensive income \$	Deficit \$	Total Equity \$
Balance – January 1, 2012	11,783,069	25,466,499	1,840,527	2,684,960	(28,151)	(24,656,819)	5,307,016
Net loss for the period	-	-	-	-	-	(164,242)	(164,242)
Other comprehensive loss	-	-	-	-	(320,000)	-	(320,000)
Total comprehensive loss for the period	-	-	-	-	(320,000)	(164,242)	(484,242)
Balance – June 30, 2012	11,783,069	25,466,499	1,840,527	2,684,960	(348,151)	(24,821,061)	4,822,774
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 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

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

X-Terra Resources Corporation

Interim Consolidated Statements of Cash Flows

For the six-month periods ended June 30,

(expressed in Canadian dollars)

(Unaudited)

	2012 \$	2011 \$
Cash flows from		
Operating activities		
Net loss for the period	(164,242)	(199,003)
Adjustments for:		
Depreciation	1,878	2,495
Unrealized loss (gain) on marketable securities arising from changes in fair value	3,430	(5,805)
	<u>(158,934)</u>	<u>(202,313)</u>
Changes in items of working capital		
Accounts receivable	(18,647)	61,099
Prepaid insurance	3,103	3,122
Accounts payable and accrued liabilities	8,842	9,971
	<u>(6,702)</u>	<u>74,192</u>
Net cash used in operating activities	<u>(165,636)</u>	<u>(128,121)</u>
Investing activities		
Expenditures on property, plant and equipment	-	(1,600)
Expenditures on mining and oil and gas properties	(9,873)	(181)
Expenditures on deferred exploration expenses	(21,662)	(64,895)
Net cash provided used in investing activities	<u>(31,535)</u>	<u>(66,676)</u>
Net change in cash and cash equivalents during the period	<u>(197,171)</u>	<u>(194,797)</u>
Cash and cash equivalents – Beginning of period	<u>1,858,836</u>	<u>2,133,942</u>
Cash and cash equivalents – End of period	<u>1,661,665</u>	<u>1,939,145</u>
Components of cash and cash equivalents are as follows:		
Cash	42,665	79,411
Cash equivalents	1,619,000	1,859,734
Supplemental information		
Property, plant and equipment included in accounts payable and accrued liabilities	-	-
Deferred exploration expenses included in accounts payable and accrued liabilities	10,050	8,690
Interest received	21,151	21,261

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

For the six-month periods ended June 30, 2012 and 2011

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

(Unaudited)

1 Nature of operations and liquidity

X-Terra Resources Corporation (the “Corporation”) was incorporated on February 24, 1987 under the Corporation 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 Corporation under the Canada Business Corporations Act. On September 4, 2008, the Corporation obtained a Certificate and Articles of Continuance under the Act, rendering the continuance effective. The address of the Corporation’s headquarters and registered office is 202-139 Québec Avenue, Rouyn-Noranda, Quebec, Canada. The Corporation, 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 Quebec, 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 mining and oil and gas properties and 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, evaluation 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 impairment of the carrying value of the mining and oil and gas properties and deferred exploration expenses. Although the Corporation has taken steps to verify title to its mining and oil and gas properties on which it is currently 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 Corporation’s title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

As at June 30, 2012, the Corporation had working capital of \$3,153,751 (December 31, 2011 – \$3,660,068) including cash and cash equivalents of \$1,661,665 (December 31, 2011 – \$1,858,836) and accumulated deficit of \$24,821,061 (December 31, 2011 – \$24,656,819), and had incurred a net loss of \$91,723 (2011 – \$117,933) for the three months then ended and had incurred a net loss of \$164,242 (2011 – \$199,003) for the six months then ended.

Management of the Corporation believes that it has sufficient funds to pay its ongoing general and administrative expenses, to pursue its 2012 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 Corporation’s ability to continue future operations beyond December 31, 2012 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 Corporation or that they will be available on terms which are acceptable to the Corporation.

The Corporation’s financial year ends on December 31. The unaudited condensed interim consolidated financial statements were authorized by the Board of Directors for publication.

X-Terra Resources Corporation

Notes to condensed interim consolidated financial statements

For the six-month periods ended June 30, 2012 and 2011

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

(Unaudited)

2 Basis of preparation

The unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The unaudited condensed interim consolidated financial statements should be read in conjunction with the Corporation’s audited annual consolidated financial statements for the year ended December 31, 2011, which were prepared in accordance with IFRS as issued by the IASB.

3 Investments

Investments comprise:

	As at June 30, 2012 \$	As at December 31, 2011 \$
Common shares of public company	440,000	760,000
	<u>440,000</u>	<u>760,000</u>

The loss on investments during the year comprises the following:

	Three-month period ended June 30, 2012 \$	Three-month period ended June 30, 2011 \$
Available-for-sale financial assets	240,000	740,000

	Six-month period ended June 30, 2012 \$	Six-month period ended June 30, 2011 \$
Available-for-sale financial assets	320,000	380,000

X-Terra Resources Corporation

Notes to condensed interim consolidated financial statements

For the six-month periods ended June 30, 2012 and 2011

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

(Unaudited)

4 Mining and oil and gas properties

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

Property	Number of claims/ licences	Undivided interest %	Balance as at December 31, 2011 \$	Net acquisitions \$	Balance as at June 30, 2012 \$
Lindsay	25	100	980,485	-	980,485
Rimouski	2	50	7,994	1,995	9,989
Rimouski North	3	50	10,529	-	10,529
Trois-Pistoles	8	50	15,757	7,878	23,635
			1,014,765	9,873	1,024,638

5 Deferred exploration expenses

Property	Undivided interest %	Balance as at December 31, 2011 \$	Increase \$	Refundable tax credits and mining duties \$	Balance as at June 30, 2012 \$
Lindsay	100	528,190	20,530	(7,186)	541,534
Rimouski	50	42,695	566	(198)	43,063
Rimouski North	50	45,062	566	(198)	45,430
Trois-Pistoles	50	2,092	-	-	2,092
		618,039	21,662	(7,582)	632,119

X-Terra Resources Corporation

Notes to condensed interim consolidated financial statements

For the six-month periods ended June 30, 2012 and 2011

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

(Unaudited)

6 Share purchase options

Information relating to options outstanding and exercisable granted to directors and officers as at June 30, 2012, is as follows:

Number of options outstanding	Number of options exercisable	Weighted average remaining contractual life	Exercise price \$
375,000	375,000	0.92 years	1.90
270,000	270,000	1.16 years	1.00
290,000	290,000	2 years	0.50
<u>180,000</u>	<u>180,000</u>	8 years	0.35
<u>1,115,000</u>	<u>1,115,000</u>		

7 Subsequent Event

In July 2012, X-Terra's Board of Directors granted an aggregate of 50,000 stock options to X-Terra's one director. The exercise price of the options is \$0.25 and the options expire on July 12, 2022. The options were granted pursuant to X-Terra's amended stock option plan.