



X-TERRA

RESOURCES CORPORATION

X-TERRA RESOURCES CORPORATION

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS
THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2010
(unaudited)**

FINANCIAL STATEMENTS

Consolidated Balance Sheets

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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
November 26, 2010

X-Terra Resources Corporation

(an exploration stage company)

Consolidated Balance Sheets

(unaudited)

	September 30, 2010 \$	December 31, 2009 \$
Assets		
Current assets		
Cash and cash equivalents	2,279,243	2,609,361
Marketable securities	1,008,570	1,008,570
Investments (note 2)	1,000,000	2,050,000
Accounts receivable (note 3)	87,654	179,525
Prepaid expenses	554	5,743
	<u>4,376,021</u>	<u>5,853,199</u>
Property, plant and equipment (note 4)	16,246	9,588
Mining and oil and gas properties (note 5)	1,010,802	996,655
Deferred exploration expenses (note 6)	701,834	492,336
	<u>6,104,903</u>	<u>7,351,778</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	70,195	35,482
Shareholders' Equity		
Share capital (note 7)	25,440,232	25,440,232
Warrants and brokers' options (note 7)	1,848,627	1,736,775
Contributed surplus (note 9)	2,676,860	2,070,212
Deficit	(24,012,812)	(22,772,724)
Accumulated other comprehensive income	81,801	841,801
	<u>6,034,708</u>	<u>7,316,296</u>
	<u>6,104,903</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 September 30, 2010 and 2009

(unaudited)

Three-month periods ended September 30 / Nine-month periods ended September 30

	2010 \$	2009 \$	2010 \$	2009 \$
Administrative expenses				
Insurance	2,057	1,812	6,170	6,627
Professional fees	3,360	-	35,380	40,292
General administrative expenses	61,867	63,387	203,213	212,150
Shareholders' communication	1,749	458	6,526	8,187
Transfer agent and regulatory fees	8,274	7,575	18,248	16,661
Stock-based compensation	-	69,020	58,500	69,020
Amortization of property, plant and equipment (note 4)	1,166	916	3,065	2,750
	<u>78,473</u>	<u>143,168</u>	<u>331,102</u>	<u>355,687</u>
Other expenses (income)				
Interest income	(14,683)	(5,149)	(41,014)	(25,702)
Extension of warrants (note 7)	660,000	-	660,000	-
Unrealized loss (gain) on short-term investments held for trading (note 2)	2,000	(24,000)	290,000	(37,684)
	<u>647,317</u>	<u>(29,149)</u>	<u>908,986</u>	<u>(63,386)</u>
Net loss for the period	<u>725,790</u>	<u>114,019</u>	<u>1,240,088</u>	<u>292,301</u>
Deficit – Beginning of period	<u>(23,287,022)</u>	<u>(22,804,013)</u>	<u>(22,772,724)</u>	<u>(22,625,731)</u>
Deficit – End of period	<u>(24,012,812)</u>	<u>(22,918,032)</u>	<u>(24,012,812)</u>	<u>(22,918,032)</u>
Basic and diluted net loss per share	<u>0.06</u>	<u>0.01</u>	<u>0.11</u>	<u>0.02</u>
Weighted average number of basic and diluted shares outstanding	<u>11,783,069</u>	<u>11,783,069</u>	<u>11,783,069</u>	<u>11,789,840</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 September 30, 2010 and 2009

(unaudited)

Three-month periods ended September 30 / Nine-month periods ended September 30

	2010	2009	2010	2009
	\$	\$	\$	\$
Net loss for the period	(725,790)	(114,019)	(1,240,088)	(292,301)
Other comprehensive income				
Unrealized gain (loss) on available-for-sale short-term investments (note 2)	180,000	230,000	(760,000)	299,500
Comprehensive income for the period	<u>(545,790)</u>	<u>115,981</u>	<u>(2,000,088)</u>	<u>7,199</u>
Accumulated other comprehensive income:				
Balance, beginning of period	(98,199)	89,500	841,801	20,000
Net change during the period	180,000	230,000	(760,000)	299,500
Balance, end of period	<u>81,801</u>	<u>319,500</u>	<u>81,801</u>	<u>319,500</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 September 30, 2010 and 2009

(unaudited)

Three-month periods ended September 30 / Nine-month periods ended September 30

	2010 \$	2009 \$	2010 \$	2009 \$
Cash flows from				
Operating activities				
Net loss for the period	(725,790)	(114,019)	(1,240,088)	(292,301)
Adjustments for:				
Unrealized loss (gain) on short-term investments held for trading (note 2)	2,000	(24,000)	290,000	(37,684)
Stock-based compensation	-	69,020	58,500	69,020
Amortization of property, plant and equipment (note 4)	1,166	916	3,065	2,750
Extension of warrants	660,000	-	660,000	-
	(62,624)	(68,083)	(228,523)	(258,215)
Changes in non-cash operating working capital items	132,610	(34,002)	131,773	9,837
	69,986	(102,085)	(96,750)	(248,378)
Financing activity				
Purchase of shares under normal course issuer bid	-	-	-	(93,880)
	-	-	-	(93,880)
Investing activities				
Acquisition of property, plant and equipment	(1,923)	-	(9,723)	-
Acquisition of mining and oil and gas properties	(13,917)	(8,290)	(14,147)	(8,581)
Deferred exploration expenses	(64,983)	(78,160)	(229,606)	(168,680)
Tax credits and mining duties received	20,108	-	20,108	-
	(60,715)	(86,450)	(233,368)	(177,261)
Increase (decrease) in cash and cash equivalents during the period	9,271	(188,535)	(330,118)	(519,519)
Cash and cash equivalents – Beginning of period	2,269,972	3,965,401	2,609,361	4,296,385
Cash and cash equivalents – End of period	2,279,243	3,776,866	2,279,243	3,776,866
Cash and cash equivalents include:				
Cash on hand and bank balances	268,027	699,090		
Money market fund	2,011,216	3,077,776		
	2,279,243	3,776,866		

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 September 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 September 30, 2010, the Company holds the Lindsay, Cool Lake, Rimouski, Rimouski North, Shawinigan and Trois-Pistoles properties and has cash and cash equivalents totalling \$2,279,243 and working capital of \$4,305,826.

X-Terra Resources Corporation

(an exploration stage company)

Notes to Interim Consolidated Financial Statements

As at September 30, 2010

(unaudited)

2 Investments

	As at September 30, 2010		As at December 31, 2009	
	Carrying value \$	Fair value \$	Carrying value \$	Fair value \$
Investments available for sale				
Common shares of public companies*	1,000,000	1,000,000	1,760,000	1,760,000
Investments held for trading				
Warrants of public companies*	-	-	290,000	290,000
	<u>1,000,000</u>	<u>1,000,000</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 nine-month period ended September 30, 2010, the Company recognized an unrealized loss of \$760,000 (2009 – gain of \$299,500) on common shares of a public company designated as available for sale in other comprehensive income and a \$290,000 unrealized loss (2009 – gain of \$37,684) on warrants of a public company classified as held for trading was included in net loss for the period.

3 Accounts receivable

	As at September 30, 2010	As at December 31, 2009
Refundable tax credits and mining duties	15,666	85,962
Sales taxes	21,591	9,695
Receivable from a partner	40,185	67,718
Advance for shale gas permits	-	16,150
Interest income receivable	10,212	-
	<u>87,654</u>	<u>179,525</u>

X-Terra Resources Corporation

(an exploration stage company)

Notes to Interim Consolidated Financial Statements

As at September 30, 2010

(unaudited)

4 Property, plant and equipment

			As at September 30, 2010	As at December 31, 2009
	Cost \$	Accumulated amortization \$	Net value \$	Net value \$
Computer equipment/software	13,875	6,657	7,218	7,111
Office furniture	3,440	1,335	2,105	2,477
Exploration equipment	7,800	877	6,923	-
	<u>25,115</u>	<u>8,869</u>	<u>16,246</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 September 30, 2010 \$
Lindsay	25	100	978,444	1,645	980,089
Cool Lake	40	100	2,172	-	2,172
Rimouski	2	50	4,004	1,995	5,999
Rimouski North	3	50	5,272	2,628	7,900
Shawinigan	3	50	6,763	-	6,763
Trois-Pistoles	8	50	-	7,879	7,879
			<u>996,655</u>	<u>14,147</u>	<u>1,010,802</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 September 30, 2010

(unaudited)

6 Deferred exploration expenses

Property	Percentage interest %	As at December 31, 2009 \$	Additions \$	Refundable tax credits and mining duties \$	As at September 30, 2010 \$
Lindsay	100	415,159	183,186	(20,108)	578,237
Cool Lake	100	34,892	108	-	35,000
Rimouski	50	14,434	22,963	-	37,397
Rimouski North	50	15,849	9,534	-	25,383
Shawinigan	50	12,002	13,230	-	25,232
Trois-Pistoles	50	-	585	-	585
		492,336	229,606	(20,108)	701,834

Three-month periods ended September 30 / Nine-month periods ended September 30

	2010 \$	2009 \$	2010 \$	2009 \$
Exploration costs				
Accommodations	3,750	3,500	11,890	6,500
Maps, printing and drafting	32	1,500	262	1,500
Assay and geochemical analysis	365	-	5,670	-
Geology	36,584	36,800	78,575	78,800
Geophysics	22,427	3,600	22,427	3,600
Drilling	-	-	101,009	-
Project management fees	1,825	120	9,773	120
	64,983	45,520	229,606	90,520
Deduction				
Refundable tax credits and mining duties	(20,108)	-	(20,108)	-
Increase in deferred exploration expenses	44,875	45,520	209,498	90,520
Balance – Beginning of period	656,959	422,451	492,336	377,451
Balance – End of period	701,834	467,971	701,834	467,971

X-Terra Resources Corporation

(an exploration stage company)

Notes to Interim Consolidated Financial Statements

As at September 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 September 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 \$
Balance – December 31, 2009	5,800,000	400,000	1,736,775
Extension of warrants ⁽¹⁾	-		660,000
Expired	(650,000)	(400,000)	(548,148)
Balance – September 30, 2010	<u>5,150,000</u>	-	<u>1,848,627</u>

Information relating to warrants outstanding as at September 30, 2010 is as follows:

Expiry date	Number of warrants outstanding	Exercise price \$
July 2013 ⁽¹⁾	5,000,000	1.50
February 2011	<u>150,000</u>	1.50
	<u>5,150,000</u>	

⁽¹⁾ On June 14, 2010, the Company extended the life of 5,000,000 existing warrants entitling the holder to acquire one common share at a price of \$1.50 until July 11, 2013. These warrants have been valued at \$660,000 using the Black-Scholes pricing model with the following assumptions: risk free interest rate of 1.93%, average expected volatility of 110% and no amount of expected dividend per share.

X-Terra Resources Corporation

(an exploration stage company)

Notes to Interim Consolidated Financial Statements

As at September 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 nine-month period ended September 30, 2010, there is \$58,500 (2009 – \$69,020) which has been included in administrative expenses.

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

	Options outstanding	Weighted average exercise price \$
Balance – December 31, 2009	995,000	1.20
Granted	<u>180,000</u>	<u>0.35</u>
Balance – September 30, 2010	<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 September 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	1.7	60,000	1.7
1.90	375,000	2.67	375,000	2.67
1.00	270,000	2.91	270,000	2.91
0.50	290,000	3.75	290,000	3.75
0.35	<u>180,000</u>	9.75	<u>180,000</u>	9.75
	<u>1,175,000</u>	<u>4.03</u>	<u>1,175,000</u>	<u>4.03</u>

X-Terra Resources Corporation

(an exploration stage company)

Notes to Interim Consolidated Financial Statements

As at September 30, 2010

(unaudited)

9 Contributed surplus

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

	September 30, 2010 \$	December 31, 2009 \$
Balance – Beginning of year	2,070,212	1,153,105
Stock-based compensation	58,500	69,020
Warrants expired	290,948	145,770
Broker warrants expired	257,200	97,205
Shares purchased and cancelled	-	605,112
	<hr/>	<hr/>
Balance – End of period	2,676,860	2,070,212

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 September 30:

	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	28,305	26,970
	<hr/>	<hr/>
	52,305	50,970

*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 September 30, 2010.