



X·TERRA

RESOURCES CORPORATION

ANNUAL REPORT 2011

X-TERRA RESOURCES CORPORATION

(an exploration stage company)

(the “Company” or “X-Terra”)

MANAGEMENT DISCUSSION AND ANALYSIS

(“MD&A”)

FOR THE YEAR ENDED DECEMBER 31, 2011

(the “Period”)

The following management’s discussion and analysis of X-Terra’s operating results and financial position follows rule 51-102A of the Canadian Securities Administration regarding continuous disclosure for reporting issuers. It is a complement and supplement to the Company’s consolidated financial statements and related notes for the year ended December 31, 2011 and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2011 and 2010 and the related notes thereto. The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (“**CICA Handbook**”). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (“**IFRS**”), 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 the audited consolidated financial statements. In this MD&A, the term “**Canadian GAAP**” refers to Canadian generally accepted accounting principles before the adoption of IFRS. The audited consolidated financial statements for the year ended December 31, 2011 have been prepared in accordance with IFRS applicable to the preparation of financial statements, including IFRS 1, including comparative figures. Unless otherwise indicated, all amounts in this MD&A are in Canadian dollars. Management is responsible for the preparation of the consolidated financial statements and other financial information relating to the Company included in this report.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting. In furtherance of the foregoing, the Board has appointed an Audit Committee composed of four directors, three of whom are independent and not members of management. The Committee meets with management and the auditors in order to discuss results of operations and the financial condition of the Company prior to making recommendations and submitting the financial statements to the Board of Directors for its consideration and approval for issuance to shareholders. On the recommendation of the Audit Committee, the Board of Directors has approved the Company’s financial statements.

DATE

This MD&A is prepared as of April 30, 2012.

OVERALL PERFORMANCE

Description of Business

X-Terra, 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 properties interests and has not yet determined whether they contain mineral or oil and gas deposits that are economically recoverable.

The Company capitalizes property acquisition and exploration expenses relating to mineral and oil and gas properties in which it has an active interest. In the event that such properties become inactive or prove uneconomic, they are written-off. Any reference in this document to “properties” means any mineral resources and oil and gas properties in which the Company has earned or in the future may earn an interest.

The Company is a reporting issuer in British Columbia, Alberta, Manitoba and Ontario and is traded on the TSX Venture Exchange (“**TSX-V**”), under the symbol XT. It also trades on the Frankfurt, Munich and Berlin Exchanges in Europe under the symbol DFUA.

Gas shales properties: X-Terra Resources and Brownstone Ventures’ Québec Oil and Gas Licenses cover a total of over 300,000 hectares in Quebec. Actually, the surrounding communities of the St-Lawrence river in the Province of Quebec are reluctant to gas shales exploration on their territory but we were pleased to learn, in June 2011, that the Ministry of Natural Resources acknowledged this impact and decided to extend the term of our exploration licenses up to three years.

Mining properties: The Company is actively looking to add new advanced-stage mineral projects in its portfolio. The Company will initiate a National Instrument 43-101 report on its Lindsay rare earth property in Kipawa. Area participants, like Matamec Explorations and Fieldex Exploration continue to make progress confirming the potential for significant discoveries in the Kipawa alcalin complex. The Company will decide if it will incur exploration expenses on this property in the coming months.

PROPERTIES

1. Mining Properties

Lindsay Property (25 claims)

The 100% owned Lindsay rare earth elements (REE) project is located approximately 125 kilometres south of Rouyn-Noranda, Quebec and 70 kilometres east-northeast of North Bay, Ontario, along the provincial border, halfway between the Elliot Lake uranium camp and the Abitibi gold belt, within the Grenville front. The project consists of 25 unpatented mining claims (1,534 hectares) in Villedieu Township.

The property is underlain by gneiss derived from a mature sequence of detrital and chemical metasedimentary rocks called the Kipawa formation that has been metamorphosed to upper amphibolite facies (Rive 1973b). The Kipawa alkaline intrusive complex is situated immediately north of the property and this plutonic mass could extend to the south of the property. The composition and texture of the complex is heterogeneous. Three principal internal units are present: a syenitic-monzonite facies; a banded mafic gneiss facies; and a peralkaline granite facies. The discovery of uranium and gold mineralization at Hunter's Point in 1957 increased uranium exploration in the Kipawa region. In addition, a till sampling survey was conducted by Aurizon Mines in the regions considered most favourable for gold mineralization. This survey has defined four trends of gold dispersion utilizing the analysis of heavy mineral concentrates. The northeast dispersion trend of gold in heavy mineral concentrate is located immediately to the northwest of the property and is evident along the length of a major geological structure in a northwest direction that covers the property at its centre. The heavy mineral concentrates have yielded analyses of more than 0.1 g/t of gold in 27% of samples, including analyses of 1.3 g/t and 2.0 g/t of gold. In April 2012, Fieldex Exploration reports encouraging rare earth results on their Lac Sairs project, they drilled 19.55 metres of 1.10% TREO+Y₂O₃ north of the Lindsay property. In 2010, a total of three diamond drill holes totaling 358 metres have been done on the Lindsay property. More than 110 samples were sent to a lab for assaying; however, no economic results were obtained from this drilling campaign. A total of \$207,075 has been spent on the property in 2010 and only \$15,000 in 2011. Work done in 2011 included only securing and compiling the core. The Lindsay project is a mid-stage exploration project with historical uranium and rare-earth-elements occurrences and economic potential for these commodities. The Company will initiate a National Instrument 43-101 report on its Lindsay rare earth property in Kipawa. Area participants, like Matamec Explorations and Fieldex Exploration continue to make progress confirming the potential for significant discoveries in the Kipawa alcalin complex.

Other projects

The Company is continuously looking to add resources base projects in the Company.

2. Shale gas properties

Consistent with the BAPE recommendations, the government of Québec commissioned a strategic environmental assessment ("SEA") for shale gas development. A multi-stakeholder committee was appointed to conduct the SEA and new regulations were enacted to govern operations during this period. The announcement of the SEA materially impacted our timeline for exploration of the Utica. During this time, the government mandated limited activities while it increases its understanding of the industry and develops the appropriate regulations. We were pleased to learn that the Ministry of Natural Resources acknowledged this impact and extended the term of our exploration licenses up to three years. Environmental assessments are common for large scale resource projects, including shale gas development in other jurisdictions. While we appreciate the importance of assessing the local impacts, we are hopeful that the committee will leverage the growing body of research that corroborates the established industry practices to safely develop shale gas.

Rimouski and Rimouski North Properties (5 licences)

Oil and gas exploration in Québec has been ongoing for the last 140 years. Notable gas discoveries include the Quaternary Pointe-du-Lac Gas Field, the Ordovician age St. Flavien Gas Field, and the Devonian Silurian Galt gas discovery near the town of Gaspé. Oil discoveries include the Port-au-Port oil discovery in Newfoundland and minor oil accumulation at Haldimand, near Gaspé. While the province is known to be petroliferous, the discoveries have been modest. Reservoirs can be found in the Cambrian, Ordovician, Silurian, Devonian and the Quaternary. Up until the "discovery" of the Utica Shale plays, most oil and gas accumulations in the area were conventional.

A compilation has been completed and a 50/50 farm out deal has been finalized with a well-known oil and gas networked partner/operator named Brownstone Ventures Inc (“Brownstone”). In 2008, X-Terra entered into an agreement with Brownstone pursuant to which Brownstone acquired a 50% interest in the exploration licenses in exchange for the issuance to X-Terra of 2,000,000 common shares valued at \$740,000 and 2,000,000 common shares purchase warrants valued at \$103,806. X-Terra still owns these shares but all warrants have expired.

X-Terra and its partner Brownstone Ventures Inc. have made a 5,543-kilometre airborne magnetic survey on the Rimouski, and Rimouski North projects in the St. Laurent Lowlands, Quebec. The survey is composed of 5,543 kilometres of 300-metre-spacing flight lines and 3,000-metre-spacing control lines and was completed by Geophysics GPR International-KalusAir Services Inc. (KASI). Preliminary results from this last study suggest structural fabrics, which could generate targets on the three projects. These structural fabrics have been investigated by a geological field survey in 2010, in order to renew the licences of Rimouski and Rimouski North properties which have good potential targets. In 2011, little work has been done but all reports have been written and filed with the Ministry of Natural Resources regarding work done in 2010 and 2011. The maps are available on the Company’s website at www.xterraresources.com.

Trois-Pistoles property (8 licences)

The Company with its partner Brownstone Ventures Inc. have acquired 157,570 hectares of additional land in the St-Laurent Lowlands between Rimouski and Riviere-du-Loup for the potential in oil and gas. An airborne magnetic survey which was flown over the Trois-Pistoles project by the Quebec Natural Resources department is now available. In 2011, little work has been done but all reports have been written and filed with the Ministry of Natural Resources regarding work done in 2010 and 2011. The maps are available on the Company’s website at www.xterraresources.com.

SUMMARY OF ANNUAL AND QUARTERLY INFORMATION

Selected Annual Information and Operation Results

The following table sets forth a comparison of revenues and net loss for the previous three most recently completed fiscal years:

	Fiscal year ended December 31,		
	<u>2011</u>	<u>2010</u>	<u>2009⁽¹⁾</u>
	(\$)	(\$)	(\$)
Interest income	63,647	62,542	28,480
Net loss	(521,380)	(1,336,448)	(146,993)
Basic and diluted net loss per share	(0.04)	(0.11)	(0.01)

	As at December 31,		
	<u>2011</u>	<u>2010</u>	<u>2009⁽¹⁾</u>
	(\$)	(\$)	(\$)
Total assets	5,338,652	6,960,516	7,351,778

(1) Information for 2009 is presented in accordance with Canadian GAAP and was not required to be restated to IFRS.

X-Terra has not since the date of its incorporation, declared or paid any dividends on its Common Shares. For the foreseeable future, X-Terra anticipates that it will retain future earnings and other cash resources for the operation and development of its business.

Operating activities and results

Due to its field of activity, the Company does not generate revenue on a regular basis and must continually issue shares in order to insure the financial means for mining and oil and gas projects and its everyday transactions. During the fiscal year 2011, the Company registered a net loss of \$521,380 in comparison with a net loss registered for the fiscal year 2010 at \$1,336,448. The Company has recorded interest income of \$63,647 (\$62,542 in 2010). The Company also recorded a gain on investments at fair value through profit or loss of \$2,580 (loss in 2010 - \$275,600). The Company has recorded no expenses regarding the extension of warrants (2010 – \$660,000 regarding the extension of 5,000,000 warrants). There is a deferred income tax expense of \$159,638 in 2011 (2010 – deferred income tax recovery of \$29,590). The Company wrote-off no mining properties and no deferred exploration expenses in 2011 in comparison to \$8,935 and \$55,391 respectively in 2010. The Company’s expenses for 2011 are at \$427,969 (2010 - \$492,980) and include no share-based compensation (2010 - \$58,500). Professional fees have decreased from \$51,075 in 2010 to \$50,264 in 2011. Office and general fees have

increased and went from \$37,150 in 2010 to \$66,913 in 2011. The office and general fees increased in 2011 mainly due to the fact that the Company has leased temporary space in Montreal. Consulting fees have increased and went from \$220,019 in 2010 to \$221,125 in 2011. Conference and promotion fees have increased and went from \$31,244 in 2010 to \$54,088 and 2011 mainly because a director travelled more to promote the Company and looked to find new advanced-stage mineral projects. Allocated sums for public company expenses went from \$26,322 in 2010 to \$28,220 in 2011. The other administrative expenses remained relatively stable, are cyclical and may fluctuate according to the events, which are not always predictable.

Office and general expenses

This is the detail for office and general expenses for the previous two most recently completed fiscal years:

	\$	\$
	<u>2011</u>	<u>2010</u>
Office leasing	49,190	25,969
Insurances	8,388	7,249
Office operations and facilities	9,335	3,932
	<u>66,913</u>	<u>37,150</u>

Financing activities

No financing has been raised in 2011 and the Company does not expect any in the near future.

Investing activities

In 2011, the Company had a cash outflow of \$2,475 in acquisition of property, plant and equipment, \$12,798 in acquisition of mining and oil and gas properties and \$61,987 in deferred exploration expenses. In 2011, the Company received \$106,943 in tax credits and mining duties and should receive \$26,806 during 2012.

Liquidity and working capital

As at December 31, 2011, the Company had a working capital of \$3,660,068 (December 31, 2010 - \$5,286,250), which included cash and cash equivalents of \$1,858,836 (December 31, 2010 - \$2,133,942). As at December 31, 2011, the Company's working capital represents \$0.31 per share.

The exercise of the 1,175,000 outstanding stock options as of the date of this report represents an added potential financing of \$1,256,500. These options expire between 2012 and 2020 and have an exercise price between \$0.35 and \$1.90.

As at December 31, 2011, the exercise of 5,000,000 warrants outstanding represented a potential financing of \$7,500,000. These warrants expire in July 2013 and they have an exercise price of \$1.50.

Summary of Quarterly results

The following table sets a comparison of selected quarterly financial information for the previous eight quarters:

Period	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Year	2011	2011	2011	2011	2010	2010	2010	2010
Revenues	16,061	15,274	16,357	15,955	71,758	70,195	62,689	78,561
Loss for the period	(246,429)	(75,948)	(117,933)	(81,070)	(96,360)	(725,790)	(198,989)	(315,309)
Basic and diluted loss per share	(0.02)	(0.01)	(0.01)	(0.01)	(0.01)	(0.06)	(0.02)	(0.03)
Total assets	5,338,652	5,308,963	6,391,484	7,252,911	6,960,516	6,104,903	5,983,187	6,519,548

Fourth Quarter

During the three-month period ended December 31, 2011, the Company registered a net loss of \$246,429 in comparison with the net loss of \$96,360 for the same quarter in 2010. The Company has recorded, for the quarter ended December 31, 2011, interest income of \$16,061 (\$21,528 for the quarter ended December 31, 2010), and unrealized loss on investments of \$4,685 (gain of \$14,400 for the quarter ended December 31, 2010). The Company's expenses for the quarter ended December 31, 2011 are at \$98,167 (\$161,878 for the quarter ended December 31, 2010). Professional fees have decreased from \$15,695 for the quarter ended December 31, 2010 to \$6,502 for the quarter ended December 31, 2011. Office and general expenses have increased and went from \$7,620 for the quarter ended December 31, 2010 to \$14,571 for the quarter ended December 31, 2011 mainly due to the fact that the Company has leased temporary space in Montreal. Consulting fees have decreased and went from \$61,694 for the quarter ended December 31, 2010 to \$54,990 for the quarter ended December 31, 2011. Conference and promotion fees have increased and went from \$9,716 for the quarter ended December 31, 2010 to \$17,221 for the quarter ended December 31, 2011 mainly because a director travelled more to promote the Company and looked to find new advanced-stage mineral projects. Allocated sums for public company expenses went from \$1,548 for the quarter ended December 31, 2010 to \$1,267 for the quarter ended December 31, 2011. The Company

wrote-off no mining properties and no deferred exploration expenses for the quarter ended December 31, 2011 in comparison to \$8,935 and \$55,391 respectively for the quarter ended December 31, 2010. The other administrative expenses remained relatively stable, are cyclical and may fluctuate according to the events, which are not always predictable.

Mining and Oil and Gas Properties (All properties are located in Canada)

Deferred exploration expenses

		For the year ended December 31, 2011				
Property	Undivided interest %	Balance – Beginning of year \$	Increase \$	Writeoff \$	Refundable tax credits and mining duties \$	Balance – End of year \$
Lindsay	100	519,171	15,000	-	(5,981)	528,190
Rimouski	50	30,687	13,542	-	(1,534)	42,695
Rimouski North	50	32,813	13,366	-	(1,117)	45,062
Trois-Pistoles	50	335	2,632	-	(875)	2,092
		583,006	44,540	-	(9,507)	618,039
		For the year ended December 31, 2010				
Property	Undivided interest %	Balance – Beginning of year \$	Increase \$	Writeoff \$	Refundable tax credits and mining duties \$	Balance – End of year \$
Lindsay	100	415,159	207,075	-	(103,063)	519,171
Cool Lake	100	34,892	107	(34,955)	(44)	-
Rimouski	50	14,434	27,034	-	(10,781)	30,687
Rimouski North	50	15,849	28,211	-	(11,247)	32,813
Shawinigan	50	12,002	14,100	(20,436)	(5,666)	-
Trois-Pistoles	50	-	585	-	(250)	335
		492,336	277,112	(55,391)	(131,051)	583,006

	2011 \$	2010 \$
Deferred exploration expenses		
Accommodations	15,000	15,640
Maps, printing and drafting	2,303	1,275
Assay and geochemical analyses	-	6,161
Geology	26,790	119,390
Geophysics	-	22,427
Drilling	-	101,008
Project management fees	447	11,211
	<hr/>	<hr/>
	44,540	277,112
Deductions		
Writeoff of deferred exploration expenses	-	(55,391)
Refundable tax credits and mining duties	(9,507)	(131,051)
	<hr/>	<hr/>
Increase in deferred exploration expenses	35,033	90,670
Balance – Beginning of year	<hr/>	<hr/>
	583,006	492,336
Balance – End of year	<hr/>	<hr/>
	618,039	583,006

PROJECTED OPERATIONS

The Company does not foresee for the moment any important acquisition or disposal of property.

OFF-BALANCE SHEET ARRANGEMENT

X-Terra has not entered into any specialized financial agreements to minimize its investments, currency or commodity risk. There are no off balance sheets arrangements, such as a guarantee contract, contingent interest in assets transferred to an entity, derivative instruments obligations and/or any obligations that trigger financing, liquidity, market or credit risk to the company.

RELATED PARTY TRANSACTIONS

Related party transactions occurred in the normal course of business. Unless indicated otherwise, the following transactions are included in the consolidated statements of loss:

	2011 \$	2010 \$
A director or a company held by directors		
Rent	10,750	-
Officers or a company held by officers the		
Consulting fees	199,050	216,690
Rent	24,000	24,000
	<hr/>	<hr/>
	233,800	240,690
	<hr/>	<hr/>

As at December 31, 2011, the balance due to the related parties amounts to \$10,988 (December 31, 2010 – \$38,383). This amount is subject to the same conditions as those of non-related parties.

Compensation of key management

The Company has a service agreement with a related party to provide management services to the Company, including senior executives. Because of the service agreement, the Company has no employee benefits expense.

Key management includes directors and senior executives. The compensation paid or payable to key management is presented below:

	2011 \$	2010 \$
Key management services and directors' fees	156,960	178,020
Share-based compensation expense	-	58,500
	<u>156,960</u>	<u>236,520</u>

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. There is a full disclosure and description of the Company's critical accounting policies and critical accounting estimates in Note 5 of the audited consolidated financial statements for the year ended December 31, 2011.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Effective January 1, 2011 Canadian publicly listed entities are required to prepare their financial statements in accordance with IFRS for interim and annual periods. Due to the requirement to present comparative financial information, the effective transition date is January 1, 2010. The year ended December 31, 2011 is the Company's fourth reporting period under IFRS.

The IFRS project team has completed the conversion implementation. Post-implementation will continue in future periods. A detailed discussion of accounting policies under IFRS is included in Note 3 and the quantitative impact of adopting IFRS is further discussed in Note 6 of the audited consolidated financial statements for December 31, 2011. A detailed discussion of new accounting standards not yet adopted under IFRS is included in note 4.

As a result of the accounting policy differences on conversion from Canadian GAAP to IFRS, the Company has recorded an increase in the share capital of \$26,267 as at January 1, 2010 with the corresponding amount in the Deficit, representing the impact of Flow-through shares.

Financial Statement Presentation Changes

The transition to IFRS has resulted in consolidated financial statement presentation changes in the consolidated financial statements, most significantly on the consolidated statement of loss and the consolidated statements of changes in equity. There were no changes to the Company's consolidated statements of cash flow as a result of the implementation of IFRS.

The following is a summary of the significant changes to the Company's consolidated statement of loss:

- Expenses by nature — the Company's consolidated statement of loss presents expenses by nature. Accordingly, line item details previously reported as separate items on the consolidated statement of loss have been modified. These changes are reclassifications within the consolidated statement of loss so there is no net impact to the Company's reported net loss as a result of these changes.

Controls and Procedures

The conversion to IFRS does not have a significant impact on the Company's internal controls (including information technology systems), and accounting processes. However, the extent of change in accounting framework has required the Company to update its internal controls, disclosure controls and procedures to ensure they are appropriately designed and operated effectively for reporting under IFRS. These include: training communication—to ensure IFRS knowledge is transferred from subject matter experts to the entire organization; documentation—to ensure corporate accounting policies are updated for IFRS, and transitional analysis and decisions are adequately supported; and review—to ensure segregation of duties in the review and approval of IFRS information from preparer to management, and ultimately by the Audit Committee. As a result of these incremental internal control enhancements, the impact of the conversion from Canadian GAAP to IFRS on the Company's risk management or other business activities is reduced.

Business Activities and Key Performance Measures

The Company is not subject to any financial covenants or key ratios, therefore the transition had no impact in this regard. The impact of the IFRS transition project on the Company's compensation arrangements has been assessed and there is no impact to existing compensation arrangements due to the IFRS conversion project.

Information Technology and Systems

The IFRS transition project did not have a significant impact on the Company's information systems for the convergence periods. Significant changes are also not expected in the post-convergence periods.

Ongoing Activities

The completion of the Implementation and commencement of Post-Implementation phases will involve continuous monitoring of the changes implemented to date to ensure completeness and accuracy of IFRS financial reporting. In particular, there may be additional new or revised IFRS or IFRIC in relation to consolidation, joint ventures, financial instruments, hedge accounting, discontinued operations, leases, employee benefits, revenue recognition and stripping costs in the production phase of a surface mine. The Company also notes that the International Accounting Standards Board is currently working on an extractive industries project, which could significantly impact the Company's financial statements primarily in the areas of capitalization of exploration costs and disclosures. There are processes in place to ensure that potential changes are monitored and evaluated. The impact of any new IFRS and IFRIC Interpretations will be evaluated as they are drafted and published.

FINANCIAL INSTRUMENTS

The Company is exposed to various financial risks resulting from both its operations and its investment activities. The Company's management manages financial risks. The Company does not enter into financial instrument agreements including derivative financial instruments, for speculative purposes. The main financial risks to which the Company is exposed are detailed below.

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. As further mentioned in note 1 of the audited consolidated financial statements for the year ended December 31, 2011, the Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities. As at December 31, 2011, the Company had a cash and cash equivalent of \$1,858,836 (December 31, 2010 - \$2,133,942) to settle current liabilities of \$31,636 (December 31, 2010 - \$71,758). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is subject to concentrations of credit risk through cash and cash equivalents, marketable securities, investments and accounts receivable. Accounts receivable consists mainly of goods and services tax due from the federal government and provincial sales tax due from the Quebec government, amounts receivable from a partner and interest receivable from reputable institutions. The Company reduces its credit risk by maintaining part of its cash and cash equivalents in financial instruments guaranteed by and held with a Canadian chartered bank and the remainder in financial instruments guaranteed by Canadian chartered banks held with an independent investment dealer member of the Canadian Investor Protection Fund. The marketable securities are composed of bonds from reputable financial and corporate institutions.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates.

Price risk

The Company is exposed to equity securities price risk because of its investments held. When trading its shares, unfavourable market conditions could result in the disposal of the Company's listed shares at less than their value as at December 31, 2011. A 1% variation in the closing price on the stock market would result in an estimated variation of \$7,600 of the loss at year-end 2011.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company has cash balances, and its current policy is to invest excess cash in certificates of deposit or money market funds of major Canadian chartered banks. The bonds comprising marketable securities bear interest at fixed rates, and the Company is therefore exposed to the risk of changes in fair value resulting from interest rate fluctuations. The sensitivity of the Company to a 1% fluctuation in the interest rate would not have a significant impact. The Company's other financial assets and financial liabilities are not subject to interest rate risk since they are non-interest bearing.

Fair value hierarchy

Level 1 includes unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 includes inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly or indirectly. And Level 3 includes inputs for the assets or liabilities that are not based on observable market data. For those fair value measurements included in Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances has been provided.

	Financial assets measured at fair value			
	As at December 31, 2011			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial assets and liabilities at fair value through profit or loss				
Money market funds	1,589,852	-	-	1,589,852
Marketable securities	-	1,025,550	-	1,025,550
	<u>1,589,852</u>	<u>1,025,550</u>	<u>-</u>	<u>2,615,402</u>
Available for sale				
Investment in common shares of public company	760,000	-	-	760,000
	<u>760,000</u>	<u>-</u>	<u>-</u>	<u>760,000</u>
Assets measured at fair value				
As at December 31, 2010				
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial assets and liabilities at fair value through profit or loss				
Money market funds	1,828,259	-	-	1,828,259
Marketable securities	-	1,022,970	-	1,022,970
	<u>1,828,259</u>	<u>1,022,970</u>	<u>-</u>	<u>2,851,229</u>
Available for sale				
Investment in common shares of public company	1,980,000	-	-	1,980,000
	<u>1,980,000</u>	<u>-</u>	<u>-</u>	<u>1,980,000</u>

	Assets measured at fair value As at January 1, 2010			
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets and liabilities at fair value through profit or loss				
Money market funds	2,001,193	-	-	2,001,193
Marketable securities	-	1,008,570	-	1,008,570
Investments in warrants of public company	-	-	290,000	290,000
	<u>2,001,193</u>	<u>1,008,570</u>	<u>290,000</u>	<u>3,299,763</u>
Available for sale				
Investment in common shares of public company	1,760,000	-	-	1,760,000

	Reconciliation of long-term investments measured at fair value based on Level 3 inputs	
	2011 \$	2010 \$
Balance – Beginning of year	-	290,000
Expiration of warrants	-	(290,000)
Balance – End of year	<u>-</u>	<u>-</u>

Risk and Uncertainties

The securities of the Company are highly speculative. In evaluating the Company, it is important to consider that it is a resources exploration enterprise in the exploratory stage of its operations. To date, the Company has had no revenues and there is no immediate expectation of revenues. A prospective investor or other person reviewing the Company should not consider an investment in it unless the investor is capable of sustaining an economic loss of the entire investment. All costs have been funded through equity. Certain risks are associated with the Company's business including:

Mineral Exploration and Development

The Company's properties are in the exploration stage and are without a known body of commercial ore. Development of any of its properties will only follow after obtaining satisfactory exploration results. Mineral exploration and development involve a high degree of risk and few properties which are explored are ultimately developed into producing mines. There is no assurance that the Company's mineral exploration and development activities will result in the discovery of a body of commercial ore on any of its properties. Several years may pass between the discovery and development of commercial mineable mineralized deposits.

Most exploration projects do not result in the discovery of commercially mineralized deposits. The commercial viability of exploiting any precious or base metal deposit is dependent on a number of factors including infrastructure and governmental regulation, in particular those relating to environment, taxes, and royalties. No assurance can be given that minerals will be discovered of sufficient quality, size and grade on any of the Company's properties to justify a commercial operation.

Economics of Developing Mineral Properties

Substantial expenses are required to establish ore reserves through drilling, to develop metallurgical processes to extract metal from ore and to develop the mining and processing facilities and infrastructure at any site chosen for mining. No assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operation or that the funds required for development can be obtained on a timely basis.

The marketability of any minerals acquired or discovered may be affected by numerous factors which are beyond the Company's control and which cannot be predicted, such as market fluctuations, the proximity and capacity of milling facilities, mineral markets and processing equipment, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals, and environmental protection. Depending on the price of minerals produced, the Company may determine that it is impractical to commence or continue commercial production.

Environmental Regulations

The Company proposes to conduct exploration activities in various parts of Canada. Such activities are subject to laws, rules and regulations governing the protection of the environment, including, in some cases, posting of reclamation bonds. In Canada, extensive environmental legislation has been enacted by federal, provincial and territorial governments. All phases of the Company's operations are subject to environmental regulation in the jurisdictions in which it operates. Environmental legislation is evolving in a manner which requires stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed properties and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulations, if any, will not adversely affect the Company's operations. The cost of compliance with changes in governmental regulations has the potential to reduce the profitability of operations or to preclude entirely the economic development of a property. Environmental hazards may exist on the Company's properties, which hazards are unknown to the Company at present, which may have been caused by previous or existing owners or operators of the properties. The Company is not aware of any environmental hazards on any of the properties held by the Company.

The Company has adopted environmental practices designed to ensure that it continues to comply with or exceed all environmental regulations currently applicable to it. All of the Company's activities are in compliance in all material respects with applicable environmental legislation. The Company is currently engaged in exploration with nil to minimal environmental impact.

Uncertainty of Ownership Rights and Boundaries of Resource Properties

There is no assurance that the rights of ownership and other rights in concessions held by the Company are not subject to loss or dispute particularly because such rights may be subject to prior unregistered agreements or transfers or other land claims and may be affected by defects and adverse laws and regulations which have not been identified by the Company. Notwithstanding that the exploration and operating concessions in respect of which the Company may hold various interests have been surveyed, the precise boundary locations thereof may be in dispute. Although the Company has exercised the usual due diligence with respect to title to properties in which it has a material interest, there is no guarantee that title to the properties will not be challenged or impugned. The Company's mineral property interest may be subject to prior unregistered agreements or transfers or native land claims and title may be affected by undetected defects. In addition, certain of the mining claims in which the Company has an interest are not recorded in its name and cannot be recorded until certain steps are taken by other parties. Before a number of claims under option can be recorded in the Company's name, the underlying title holder has to assign title to the Company once the Company satisfies its option agreement obligations. There are no assurances that the underlying title holder will assign title.

Potential Conflicts of Interest

The directors of the Company serve as directors of other public and private companies and devote a portion of their time to manage other business interests. This may result in certain conflicts of interest. To the extent that such other companies may participate in ventures in which the Company is also participating, such directors and officers of the Company may have a conflict of interest in negotiating and reaching an agreement with respect to the extent of each company's participation. The Canada Business Corporations Act, to which the Company is subject, requires the directors and officers of the Company to act honestly and in good faith with a view to the best interests of the Company. However, in conflict of interest situations, directors of the Company may owe the same duty to another company and will need to balance the competing obligations and liabilities of their actions. There is no assurance that the needs of the Company will receive priority in all cases. From time to time, several companies may participate together in the acquisition, exploration and development of natural resource properties, thereby allowing these companies to: (i) participate in larger programs; (ii) acquire an interest in a greater number of programs; and (iii) reduce their financial exposure with respect to any one program. A particular company may assign, at its cost, all or a portion of its interests in a particular program to another affiliated company due to the financial position of the company making the assignment. In determining whether or not the Company will participate in a particular program and the interest therein to be acquired by it, it is expected that the directors of the Company will primarily consider the degree of risk to which the Company may be exposed and its financial position at the time.

Governmental Regulation

Operations, development and exploration on the Company's properties are affected to varying degrees by: (i) government regulations relating to such matters as environmental protection, health, safety and labor; (ii) mining law reform; (iii) restrictions on production, price controls, and tax increases; (iv) maintenance of claims; (v) tenure; and (vi) expropriation of property. There is no assurance that future changes in such regulation, if any, will not adversely affect the Company's operations. Changes in such regulation could result in additional expenses and capital expenditures, availability of capital, competition, reserve uncertainty, potential conflicts of interest, title risks, dilution, and restrictions and delays in operations, the extent of which cannot be predicted.

The Company is at the exploration stage on all of its properties. Exploration on the Company's properties requires responsible best exploration practices to comply with Company policy, government regulations, and maintenance of claims and tenure. The Company is required to be registered to do business and have a valid prospecting license (required to prospect or explore for minerals on crown Mineral land or to stake a claim) in any Canadian province in which it is carrying out work. Mineral exploration primarily falls under provincial jurisdiction. However, the Company is also required to follow the regulations pertaining to the mineral exploration industry that fall under federal jurisdiction, such as the Fish and Wildlife Act.

If any of the Company's projects are advanced to the development stage, those operations will also be subject to various laws and regulations concerning development, production, taxes, labor standards, environmental protection, mine safety and other matters. In addition, new laws or regulations governing operations and activities of mining companies could have a material adverse impact on any project in the mine development stage that the Company may possess.

Also, no assurance can be made that Canada Revenue Agency and provincial agencies will agree with the Company's characterization of expenses as Canadian exploration expenses or Canadian development expense or the eligibility of such expenses as Canadian exploration expense under the Income Tax Act (Canada) or any provincial equivalent.

Precious and base metal prices

The price of precious and base metal prices can fluctuate widely and is affected by numerous factors including demand, inflation, strength of the US dollar and other currencies, interest rates, gold sales by the central banks, forward sales by producers, global or regional political or financial events, and production and cost levels in major producing regions. In addition, prices are sometimes subject to rapid short-term changes because of speculative activities.

Even if the Company discovers commercial amounts of metals on its properties, it may not be able to place the property into commercial production if precious and base metal prices are not at sufficient levels

Need for Additional Financing

Currently, exploration programs are pursued by the Company with the objective of establishing mineralization of commercial quantities. The Company may fund the proposed programs through equity financing and the possible exercise of outstanding options. Such funding would be dilutive to current shareholders. Should sources of equity financing not be available to the Company, the Company would seek a joint venture relationship in which the funding source could become entitled to a shared, negotiated interest in the property or the projects. If exploration programs carried out by the Company are successful in establishing ore of commercial quantities and/or grade, additional funds will be required to develop the properties and reach commercial production. In that event, the Company may seek capital through further equity funding, debt instruments, by offering an interest in the property being explored and allowing the party or parties carrying out further exploration or development thereof to earn an interest, or through a combination of funding arrangements. There can be no assurance of such funding sources. Furthermore, if the Company is not able to obtain the capital resources necessary to meet property payments or exploration or development obligations which now apply or which would apply in joint ventures with others, its potential as a "going concern" could be seriously affected.

Key Employees

The Company is dependent on a relatively small number of key directors and officers: Martin Dallaire and Sylvain Champagne. Loss of any one of these persons could have an adverse effect on the Company. The Company does not maintain "key-man" insurance in respect of any of its management.

Lack of operating profit

The Company was incorporated on February 24, 1987 and since incorporation, has not realized net income except for 2008 nor paid dividends. The Company's properties are in the exploration stage and to date none of them have a proven ore body. The Company does not have a history of earnings or the provision of return on investment, and in future there is no assurance that it will produce revenue, operate profitably or provide a return on investment. Variations in annual and quarterly loss and loss per shares are affected by administration costs and the write-down or write-off of mineral property

carrying costs. It is anticipated that the Company will continue to experience operating losses for the foreseeable future. There can be no assurance that the Company will ever achieve significant revenues or profitable operations.

Competition

The mining industry is intensely competitive in all its phases. The Company competes with many companies possessing greater financial resources and technical facilities than itself for the acquisition of mineral interests as well as for recruitment and retention of qualified employees.

Uninsured Hazards

Hazards such as unusual geological conditions are involved in exploring for and developing mineral deposits. The Company may become subject to liability for pollution or other hazards, which cannot be insured against or against which the Company may elect not to insure because of high premium costs or other reasons. The payment of any such liability could result in the loss of Company assets or the insolvency of the Company.

OTHER MD&A REQUIREMENTS

Share capital

As at April 30, 2012, the Company had the following:

Issued and outstanding- 11,783,069 shares

Warrants outstanding:

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

Stock options outstanding:

<u>Expiry date</u>	<u>Number of options outstanding</u>	<u>Exercise price (\$)</u>
June 2012	60,000	1.10
June 2013	375,000	1.90
August 2013	270,000	1.00
July 2014	290,000	0.50
June 2020	<u>180,000</u>	0.35
	<u>1,175,000</u>	

Stock-based compensation is a non-cash item, resulting from the application of the Black-Scholes option pricing model using assumptions for expected dividend yield, average risk-free interest rates, expected life of the options and expected volatility.

OTHER INFORMATION

The Company's web address is www.xterraresources.com. Further information regarding the Company and its operations are filed electronically on the System for Electronic Document Analysis and Retrieval (SEDAR) in Canada and can be obtained from www.sedar.com.

FORWARD-LOOKING STATEMENTS

Certain statements in this document that are not supported by historical facts are forward-looking, which means that they are subject to risks, uncertainties and other factors that may result in actual results differing from those anticipated or implied by such forward-looking statements. There are many factors that may cause such a disparity, notably unstable metals prices, the impact of fluctuations in foreign exchange markets and interest rates, poor reserves estimates, environmental risks (more stringent regulations), unexpected geological situations, unfavorable mining conditions, political risks arising from mining in developing countries, changing regulations and government policies (laws or policies), failure to obtain required permits and approval from government authorities, or any other risk related to mining and development. Even though the Company believes that the assumptions relating to the forward-looking statements are plausible, it is unwise to rely unduly on such statements, which were only valid as of the date of this document.

April 30, 2012.

(S) Martin Dallaire

Martin Dallaire, President and Chief Executive Officer

(S) Sylvain Champagne

Sylvain Champagne, Chief Financial Officer

CORPORATE INFORMATION

Directors

Martin Dallaire
Sylvain Champagne (1)
Sheldon Inwentash
Richard Patricio (1)
Sébastien Plouffe (1)
Xin Zhao (1)

(1) Audit Committee member

Officers

Martin Dallaire
President and Chief Executive Officer

Sylvain Champagne
Chief Financial Officer

Auditors

PricewaterhouseCoopers s.r.l. / s.e.n.c.r.l.
1250, René-Lévesque blvd west – Suite 2800
Montreal (Quebec) H3B 2G4

Transfer Agents

Computershare Canada
1500, University Street – Suite 700
Montreal (Quebec) H3A 3S8

Solicitors

Heenan Blaikie s.e.n.c.r.l. / s.r.l.
1250, René-Lévesque blvd west – Suite 2500
Montreal (Quebec) H3B 4Y1

Exchange Listing

TSX Venture Exchange
Ticker symbol: XT
CUSIP: 98386Y
ISIN: CA 98386Y1034

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X-Terra Resources Corporation

Consolidated Financial Statements
December 31, 2011 and 2010
(expressed in Canadian dollars)



April 30, 2012

Independent Auditor's Report

To the Shareholders of X-Terra Resources Corporation

We have audited the accompanying consolidated financial statements of X-Terra Resources Corporation, which comprise the consolidated statements of financial position as at December 31, 2011 and 2010 and January 1, 2010 and the consolidated statements of loss, comprehensive loss, changes in equity and cash flows for the years ended December 31, 2011 and 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

*PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l., Chartered Accountants
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T: +1 514 205 5000, F: +1 514 876 1502*



We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of X-Terra Resources Corporation as at December 31, 2011 and 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP¹

¹ Chartered accountant auditor permit No. 21280

X-Terra Resources Corporation

Consolidated Statements of Financial Position

(expressed in Canadian dollars)

	Note	As at December 31, 2011 \$	As at December 31, 2010 \$ (note 6)	As at January 1, 2010 \$ (note 6)
Assets				
Current assets				
Cash and cash equivalents	7	1,858,836	2,133,942	2,609,361
Marketable securities	8	1,025,550	1,022,970	1,008,570
Investments	9	760,000	1,980,000	2,050,000
Accounts receivable	10	14,909	88,743	93,563
Tax credits receivable	10	26,806	126,609	85,962
Prepaid insurance		5,603	5,744	5,743
		<u>3,691,704</u>	<u>5,358,008</u>	<u>5,853,199</u>
Non-current assets				
Property, plant and equipment	11	14,144	17,535	9,588
Mining and oil and gas properties	12	1,014,765	1,001,967	996,655
Deferred exploration expenses	13	618,039	583,006	492,336
		<u>1,646,948</u>	<u>1,602,508</u>	<u>1,498,579</u>
Total assets		<u>5,338,652</u>	<u>6,960,516</u>	<u>7,351,778</u>
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		<u>31,636</u>	<u>71,758</u>	<u>35,482</u>
Total liabilities		<u>31,636</u>	<u>71,758</u>	<u>35,482</u>
Equity				
Share capital	14	25,466,499	25,466,499	25,466,499
Warrants and brokers' options	14	1,840,527	1,848,627	1,736,775
Contributed surplus		2,684,960	2,676,860	2,070,212
Accumulated other comprehensive income (loss)		(28,151)	1,032,211	841,801
Deficit		<u>(24,656,819)</u>	<u>(24,135,439)</u>	<u>(22,798,991)</u>
Total equity		<u>5,307,016</u>	<u>6,888,758</u>	<u>7,316,296</u>
Total liabilities and equity		<u>5,338,652</u>	<u>6,960,516</u>	<u>7,351,778</u>

Approved by the Board of Directors

Martin Dallaire (signed)

Director

Martin Dallaire

Sylvain Champagne (signed)

Director

Sylvain Champagne

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

X-Terra Resources Corporation
Consolidated Statements of Loss
For the years ended December 31, 2011 and 2010

(expressed in Canadian dollars, except number of shares)

	Note	2011 \$	2010 \$ (note 6)
Expenses			
Professional fees		50,264	51,075
Consulting fees		221,125	220,019
Public company expenses		28,220	26,322
Office and general		66,913	37,150
Conference and promotion		54,088	31,244
Depreciation	11	4,991	4,344
Writeoff on impairment of mining and oil and gas properties	12	-	8,935
Writeoff on impairment of deferred exploration expenses	13	-	55,391
Share-based compensation	15	-	58,500
Other		2,368	-
Operating loss		427,969	492,980
Finance income		(63,647)	(62,542)
Loss (gain) on marketable securities and investments at fair value through profit or loss	8, 9	(2,580)	275,600
Extension of warrants	14	-	660,000
Loss before income tax		361,742	1,366,038
Deferred income tax expense (recovery)	17	159,638	(29,590)
Net loss for the year		521,380	1,336,448
Basic and diluted net loss per share		0.04	0.11
Weighted average number of shares outstanding			
Basic and diluted		11,783,069	11,783,069

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

X-Terra Resources Corporation
Consolidated Statements of Comprehensive Loss
For the years ended December 31, 2011 and 2010

(expressed in Canadian dollars)

	Note	2011 \$	2010 \$
Net loss for the year		521,380	1,336,448
Other comprehensive loss (income)			
Changes in fair value of available-for-sale investments			
Unrealized loss (gain)	9	1,220,000	(220,000)
Income tax recovery (expense)	17	159,638	(29,590)
Other comprehensive loss (income), net of income taxes		1,060,362	(190,410)
Comprehensive loss for the year		1,581,742	1,146,038

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

X-Terra Resources Corporation

Consolidated Statements of Changes in Equity

(expressed in Canadian dollars)

	Number of common shares	Share capital \$	Warrants and brokers' options \$	Contributed surplus \$	Accumulated other comprehensive income (loss) \$	Deficit \$	Total equity \$
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 year					-	(1,336,448)	(1,336,448)
Other comprehensive income (net of income tax)					190,410	-	190,410
Total comprehensive income (loss) for the year					190,410	(1,336,448)	(1,146,038)
Extension of warrants			660,000	-	-	-	660,000
Fair value of warrants expired			(290,948)	290,948	-	-	-
Fair value of brokers' options			(257,200)	257,200	-	-	-
Share-based compensation			-	58,500	-	-	58,500
Balance – December 31, 2010	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 year					-	(521,380)	(521,380)
Other comprehensive loss (net of income tax)					(1,060,362)	-	(1,060,362)
Total comprehensive loss for the year					(1,060,362)	(521,380)	(1,581,742)
Fair value of warrants expired			(8,100)	8,100	-	-	-
Balance – December 31, 2011	11,783,069	25,466,499	1,840,527	2,684,960	(28,151)	(24,656,819)	5,307,016

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

X-Terra Resources Corporation
Consolidated Statements of Cash Flows
For the years ended December 31, 2011 and 2010

(expressed in Canadian dollars)

	Note	2011 \$	2010 \$ (note 6)
Cash flows from			
Operating activities			
Net loss for the year		(521,380)	(1,336,448)
Adjustments for:			
Depreciation		4,991	4,344
Unrealized gain on marketable securities arising from changes in fair value	8	(2,580)	(14,400)
Realized loss on investment arising from changes in fair value	9	-	290,000
Share-based compensation	15	-	58,500
Extension of warrants	14	-	660,000
Writeoff on impairment of mining and oil and gas properties	12	-	8,935
Writeoff on impairment of deferred exploration expenses	13	-	55,391
Deferred income tax		159,638	(29,590)
Other		2,368	-
		<u>(356,963)</u>	<u>(303,268)</u>
Changes in items of working capital			
Accounts receivable		73,834	4,820
Prepaid insurance		141	(1)
Accounts payable and accrued liabilities		(21,801)	22,901
		<u>52,174</u>	<u>27,720</u>
Net cash used in operating activities		<u>(304,789)</u>	<u>(275,548)</u>
Investing activities			
Purchase of property, plant and equipment		(2,475)	(11,416)
Expenditures on mining and oil and gas properties		(12,798)	(14,247)
Expenditures on deferred exploration expenses		(61,987)	(264,612)
Tax credits and mining duties received		106,943	90,404
Net cash provided by (used in) investing activities		<u>29,683</u>	<u>(199,871)</u>
Net change in cash and cash equivalents during the year		<u>(275,106)</u>	<u>(475,419)</u>
Cash and cash equivalents – Beginning of year		<u>2,133,942</u>	<u>2,609,361</u>
Cash and cash equivalents – End of year	7	<u>1,858,836</u>	<u>2,133,942</u>
Supplemental information			
Property, plant and equipment included in accounts payable and accrued liabilities		-	875
Deferred exploration expenses included in accounts payable and accrued liabilities		2,883	20,330
Interest received		42,904	41,610

X-Terra Resources Corporation

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(expressed in Canadian dollars)

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 Québec Avenue, Rouyn-Noranda, Quebec, Canada. 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 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 Company 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 Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

As at December 31, 2011, the Company had working capital of \$3,660,068 (December 31, 2010 – \$5,286,250) including cash and cash equivalents of \$1,858,836 (December 31, 2010 – \$2,133,942) and accumulated deficit of \$24,656,819 (December 31, 2010 – \$24,135,439), and had incurred a net loss of \$521,380 for the year then ended (2010 – \$1,336,448).

Management of the Company 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 Company'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 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 consolidated financial statements were authorized by the Board of Directors for publication on April 30, 2012.

X-Terra Resources Corporation

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(expressed in Canadian dollars)

2 Basis of preparation and adoption of International Financial Reporting Standards

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles as defined in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”), and to require publicly accountable enterprises to apply these standards effective for years beginning on or after January 1, 2011. Accordingly, these are the Company’s first annual consolidated financial statements prepared in accordance with IFRS. In these consolidated financial statements, the term “Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS.

The consolidated financial statements have been prepared in compliance with IFRS. Subject to certain transition elections and exceptions disclosed in note 6, the Company has consistently applied the accounting policies used in the preparation of its opening IFRS consolidated statement of financial position at January 1, 2010 throughout all periods presented, as if these policies had always been in effect. Note 6 discloses the impact of the transition to IFRS on the Company’s reported financial position, financial performance and cash flows, 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 prepared under Canadian GAAP.

The accounting policies set out below have been applied consistently to both years presented in these consolidated financial statements. They also have been applied preparing an opening IFRS balance sheet at January 1, 2010 (note 6) for the purposes of the transition to IFRS, as required by IFRS 1, First-time Adoption of International Financial Reporting Standards.

3 Summary of significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements are as follows.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments which are measured at fair value. In addition, the consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Consolidation

The financial statements consolidate the accounts of the Company and its subsidiaries. Subsidiaries are those entities which the Company controls by having the power to govern the financial and operating policies. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and deconsolidated from the date that control ceases. Intercompany transactions, balances, income and expenses, and profits and losses are eliminated.

X-Terra Resources Corporation

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

(expressed in Canadian dollars)

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances, and highly liquid short-term investments with original maturities of three months or less from the date of purchase and which are readily convertible to known amounts of cash.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories:

- a) *Financial assets and financial liabilities at fair value through profit or loss*: A financial asset or financial liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Derivatives are also included in this category unless they are designated as hedges. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statements of loss. Gains and losses arising from changes in fair value are presented in the consolidated statements of loss in the period in which they arise. Non-derivative financial assets and financial liabilities at fair value through profit or loss are classified as current, except for the portion expected to be realized or paid beyond 12 months of the statement of financial position date, which is classified as non-current.
- b) *Available-for-sale investments*: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income (loss). When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income (loss) to the consolidated statement of loss.

Available-for-sale investments are classified as non-current, unless an investment matures within 12 months, or management expects to dispose of it within 12 months.

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- c) *Loans and receivables*: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.
- d) *Financial liabilities at amortized cost*: Financial liabilities at amortized cost consist of accounts payable and accrued liabilities. Accounts payable and accrued liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce to fair value. Subsequently, accounts payable and accrued liabilities are measured at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities.

The Company's financial instruments are classified as follows:

Category	Financial instrument
Financial assets and financial liabilities at fair value through profit or loss	Money market funds Marketable securities Investment in warrants of a public company
Available-for-sale investments	Investment in shares of a public company
Loans and receivables	Cash and cash equivalents Accounts receivable
Financial liabilities at amortized cost	Accounts payable and accrued liabilities

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset (other than a financial asset classified at fair value through profit or loss) is impaired. For equity securities, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If such evidence exists, the Company recognizes an impairment loss, as follows:

- i) *Financial assets carried at amortized cost*: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.
- ii) *Available-for-sale investments*: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the consolidated statements of loss. This amount represents the loss in accumulated other comprehensive income (loss) that is reclassified to net loss.

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Impairment losses on financial assets carried at amortized cost and available-for-sale debt instruments are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the consolidated statements of loss in the period in which they are incurred.

Depreciation is recognized based on the cost of an item of property, plant and equipment less its estimated residual value, over its estimated useful life as follows:

	Method	Rate
Computer equipment	Declining balance	30%
Office furniture	Declining balance	20%
Exploration equipment	Declining balance	30%

The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included in the consolidated statements of loss.

Exploration and evaluation

Exploration and evaluation ("E&E") assets comprise mining and oil and gas properties and deferred exploration expenses. Expenditures incurred on activities that precede exploration for and evaluations of mineral resources, being all expenditures incurred prior to securing the legal rights to explore an area, are expensed immediately.

E&E assets include rights in mining and oil and gas properties, paid or acquired through a business combination or an acquisition of assets, and costs related to the initial search for mineral deposits with economic potential or to obtain more information about existing mineral deposits.

Mining and oil and gas rights are recorded at acquisition cost or at recoverable amount, being the higher of the fair value less cost to sell and value in use, in the case of a devaluation caused by an impairment of value. Mining and oil and gas rights and options to acquire undivided interests in mining and oil and gas rights are depreciated only as these properties are put into commercial production.

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From time to time, the Company may acquire or dispose of a property pursuant to the terms of an option agreement. Due to the fact that options are exercisable entirely at the discretion of the option holder, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received.

E&E expenditures for each separate area of interest are capitalized and include costs associated with prospecting, sampling, trenching, drilling and other work involved in searching for ore, such as topographical, geological, geochemical and geophysical studies. They also reflect costs related to establishing the technical and commercial viability of extracting a mineral resource identified through exploration or acquired through a business combination or asset acquisition. E&E expenditures include the cost of:

- establishing the volume and grade of deposits through drilling of core samples, trenching and sampling activities in an ore body that is classified as a mineral resource;
- determining the optimal methods of extraction and metallurgical and treatment processes;
- studies related to surveying, transportation and infrastructure requirements;
- licencing activities; and
- economic evaluations to determine whether development of the mineralized material is commercially justified, including scoping, prefeasibility and final feasibility studies.

E&E expenditures include overhead expenses directly attributable to the related activities.

Cash flows attributable to capitalized E&E costs are classified as investing activities in the consolidated statements of cash flows under the headings expenditures on mining and oil and gas properties and expenditures on deferred exploration expenses.

Impairment of non-financial assets

Non-financial assets are reviewed for impairment if there is any indication that the carrying amount may not be recoverable. If any such indication is present, the recoverable amount of the asset is estimated in order to determine whether impairment exists. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

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If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount. Impairment is recognized immediately as additional depreciation or amortization. Where an impairment subsequently reverses, the carrying amount is increased to the revised estimate of recoverable amount but only to the extent that this does not exceed the carrying value that would have been determined if no impairment had previously been recognized. A reversal is recognized as a reduction in the depreciation or amortization charge for the period.

Government assistance

The Company is entitled to a refundable tax credit on qualified mining exploration expenses incurred in the province of Quebec and to Quebec refundable credits on mining duties, which are recorded against the deferred exploration expenditures incurred.

Share-based compensation

The fair value of share options granted to employees are recognized as an expense, or capitalized to deferred exploration expenditures, over the vesting period with a corresponding increase in contributed surplus. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company.

The fair value is measured at the grant date and recognized over the period in which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, equity instruments are measured at the fair value of the share-based compensation. Otherwise, share-based compensation is measured at the fair value of goods or services received.

Share capital and warrants

Common shares and warrants are classified as equity. Incremental costs directly attributable to the issuance of shares or warrants are recognized as a deduction from the proceeds in equity in the period the transaction occurs. Proceeds from unit placements are allocated between shares and warrants issued on a pro rata basis of their respective fair value within the unit, using the Black-Scholes options pricing model to determine the fair value of warrants issued.

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Flow-through shares

The Company finances some exploration expenditures through the issuance of flow-through shares. The resource expenditure deductions for income tax purposes are renounced to investors in accordance with the appropriate income tax legislation. The Company recognizes a deferred income tax liability for flow-through shares and a deferred income tax expense when the eligible expenditures are incurred. The difference between the quoted price of the common shares and the amount the investors pay for the shares (the “premium”) is recognized as other liability, which is reversed as a deferred income tax recovery when eligible expenditures have been made.

Income tax

Income tax on profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in the consolidated statement of loss except to the extent that it relates to items recognized directly in other comprehensive income (loss) or in equity, in which case it is recognized in other comprehensive income (loss) or in equity, respectively.

Mining taxes represent Canadian provincial tax levied on mining operations and are classified as income tax since such taxes are based on a percentage of mining profits.

Current income tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at year-end, adjusted for amendments to income tax payable with regard to previous years. Management periodically evaluates positions taken in income tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided using the consolidated statements of financial position liability method, providing for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is not recognized where the temporary difference arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. The amount of deferred income tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date.

A deferred income tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred income tax assets and liabilities are presented as non-current and are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all warrants, brokers' options and stock options outstanding that may add to the total number of common shares.

When the Company reports a loss, the diluted net loss per common share is equal to the basic net loss per common share due to the anti-dilutive effect of the outstanding warrants, broker's options and stock options.

Segment disclosures

The Company currently operates in a single segment: the acquisition, exploration and development of mining and oil and gas properties. All of the Company's activities are conducted in Quebec, Canada.

Functional currency

Items included on the consolidated financial statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The functional currency of each consolidated entity is the Canadian dollar.

4 New accounting standards not yet adopted

Unless otherwise noted, the revised standards and amendments are effective for annual periods beginning on or after January 1, 2013, except for the adoption of IFRS 9, which is effective January 1, 2015, and IAS 1, which is effective July 1, 2012, with early adoption of the standards permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its consolidated financial statements or whether to early adopt any of the new requirements.

The following is a brief summary of the new standards.

IAS 1 – Presentation of Financial Statements

IAS 1 was amended to change the disclosure of items presented in other comprehensive income, including a requirement to separate items presented in other comprehensive income into two groups based on whether or not they may be recycled to profit or loss in the future.

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IFRS 7 – Financial Instruments: Disclosures

IFRS 7 has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is applicable for annual periods beginning on or after July 1, 2011, with earlier application permitted.

IFRS 9 – Financial instruments

IFRS 9 was issued in November 2009 and addresses classification and measurement of financial assets and replaces the multiple category and measurement models for debt instruments in IAS 39, Financial Instruments – Recognition and Measurement, with a new mixed measurement model with only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010, and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit or loss would generally be recorded in other comprehensive income.

IFRS 10 – Consolidated Financial Statements

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC 12, Consolidation – Special Purpose Entities, and parts of IAS 27, Consolidated and Separate Financial Statements.

IFRS 11 – Joint Arrangements

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC 13, Jointly Controlled Entities – Non-monetary Contributions by Venturers.

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IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special-purpose vehicles and off-balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 – Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

5 Critical accounting estimates, judgments and assumptions

The preparation of consolidated financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continually evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. The following discusses the most significant accounting judgments and estimates that the Company has made in the preparation of the consolidated financial statements.

a) Impairment of non-financial assets

The Company's evaluation of the measurement of the recoverable amount with respect to the carrying amount of non-financial assets is based on numerous assumptions and may differ significantly from actual recoverable amounts. The recoverable amounts are based, in part, on certain factors that may be partially or totally outside of the Company's control. This evaluation involves a comparison of the estimated recoverable amounts of non-financial assets to their carrying values. The Company's estimates of the recoverable amounts are based on numerous assumptions. Those estimates may differ from actual recoverable amounts, and the differences may be significant and could have a material impact on the Company's financial position and result of operations. Assets are reviewed for an indication of impairment at each statement of financial position date and when an event or circumstance that could trigger impairment occurs. This determination requires significant judgment. Factors which could trigger an impairment review include, but are not limited to, significant negative industry or economic trends, interruptions in exploration and evaluation activities and significant drop in commodity prices.

In 2010, based on an assessment for impairment, the Cool Lake and Shawinigan properties were impaired for a total of \$8,935 and the related deferred exploration expense for \$55,391. No properties or deferred exploration expense were impaired in 2011.

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- b) The Company follows the guidance of IAS 39 to determine when an available-for-sale equity instrument is impaired. This determination requires significant judgment. In making this judgment, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance and operational and financing cash flows.
- c) Cash and cash equivalents

The Company holds investments in highly liquid money market investment funds (i.e. high-interest savings funds). The determination of whether a money market fund qualifies as a cash equivalent requires significant judgment. In determining whether such investments qualify as cash equivalents, the Company considers the following criteria: whether all investments held by the fund qualify individually as cash equivalents, the fund's management and investment policies, and any position papers issued by the associated financial institution or others.

- d) Going concern

The assessment of the Company's ability to execute its strategy by funding future working capital requirements involves judgment. 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.

6 Transition to IFRS

The effect of the Company's transition to IFRS described in note 2, is summarized in this note as follows:

- a) Transition elections
- b) Reconciliation of consolidated statement of financial position, equity, consolidated statement of loss and comprehensive income as previously reported under Canadian GAAP to IFRS and explanatory notes
- c) Adjustments to the consolidated statement of cash flows

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a) Transition elections

IFRS 1 offers the possibility to use certain exemptions from full retrospective application of IFRS. The Company evaluated the options available and elected to adopt the following transition exemptions:

- i) In accordance with IFRS 1, the Company elected to apply IFRS 2, Share-based Payments, prospectively. This exemption enables the Company to apply IFRS 2 retrospectively at the transition date only to equity instruments that were attributed after November 7, 2002 and had not vested by the IFRS transition date. As at the transition date, no adjustments were identified. Canadian GAAP balances of equity components relating to share-based payment transactions entered into before that date have been carried forward without adjustment.
- ii) In accordance with IFRS 1, the Company has elected to apply the transitional provisions in IFRIC 4, Determining Whether an Arrangement Contains a Lease, at the date of transition to all arrangements other than those entered into or modified since January 1, 2005, as such arrangements have already been assessed under requirements similar to those of IFRIC 4 under Canadian GAAP. No impact resulted from the review of arrangements.
- iii) In accordance with IFRS 1, the Company has elected to apply IAS 23, Borrowing Costs, prospectively from the date of transition; therefore, the accounting of borrowing costs prior to the transition date was not reassessed in the opening IFRS consolidated statement of financial position.
- iv) In accordance with IFRS 1, the Company elected not to apply IFRS 3, Business Combinations, to business combinations occurring before January 1, 2010. As such, Canadian GAAP balances relating to business combinations entered into before that date have been carried forward without adjustment.

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- b) Reconciliation of consolidated statement of financial position, equity, consolidated statement of loss and comprehensive income as previously reported under Canadian GAAP to IFRS and explanatory notes

Ref.	As at December 31, 2010			As at January 1, 2010		
	Canadian GAAP \$	Adj. \$	IFRS \$	Canadian GAAP \$	Adj. \$	IFRS \$
Assets						
Current assets						
Cash and cash equivalents	2,133,942	-	2,133,942	2,609,361	-	2,609,361
Marketable securities	1,022,970	-	1,022,970	1,008,570	-	1,008,570
Investments	1,980,000	-	1,980,000	2,050,000	-	2,050,000
Accounts receivable	88,743	-	88,743	93,563	-	93,563
Tax credits receivable	126,609	-	126,609	85,962	-	85,962
Prepaid insurance	5,744	-	5,744	5,743	-	5,743
	<u>5,358,008</u>	<u>-</u>	<u>5,358,008</u>	<u>5,853,199</u>	<u>-</u>	<u>5,853,199</u>
Non-current assets						
Property, plant and equipment	17,535	-	17,535	9,588	-	9,588
Mineral and oil and gas properties	1,001,967	-	1,001,967	996,655	-	996,655
Deferred exploration expenses	583,006	-	583,006	492,336	-	492,336
	<u>1,602,508</u>	<u>-</u>	<u>1,602,508</u>	<u>1,498,579</u>	<u>-</u>	<u>1,498,579</u>
Total assets	<u>6,960,516</u>	<u>-</u>	<u>6,960,516</u>	<u>7,351,778</u>	<u>-</u>	<u>7,351,778</u>
Liabilities						
Current liabilities						
Accounts payable and accrued liabilities	71,758	-	71,758	35,482	-	35,482
Total liabilities	<u>71,758</u>	<u>-</u>	<u>71,758</u>	<u>35,482</u>	<u>-</u>	<u>35,482</u>
Equity						
Share capital	(i) 25,440,232	26,267	25,466,499	25,440,232	26,267	25,466,499
Warrants and brokers' options	1,848,627	-	1,848,627	1,736,775	-	1,736,775
Contributed surplus	2,676,860	-	2,676,860	2,070,212	-	2,070,212
Accumulated other comprehensive income	1,032,211	-	1,032,211	841,801	-	841,801
Deficit	(i) (24,109,172)	(26,267)	(24,135,439)	(22,772,724)	(26,267)	(22,798,991)
Total equity	<u>6,888,758</u>	<u>-</u>	<u>6,888,758</u>	<u>7,316,296</u>	<u>-</u>	<u>7,316,296</u>
Total liabilities and equity	<u>6,960,516</u>	<u>-</u>	<u>6,960,516</u>	<u>7,351,778</u>	<u>-</u>	<u>7,351,778</u>

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	For the year ended December 31, 2010		
	Canadian GAAP \$	Adj. \$	IFRS \$
Expenses			
Professional fees	51,075	-	51,075
Consulting fees	220,019	-	220,019
Public company expenses	26,322	-	26,322
Office and general	37,150	-	37,150
Conference and promotion	31,244	-	31,244
Depreciation	4,344	-	4,344
Impairment loss of mining, oil and gas properties	8,935	-	8,935
Impairment loss of deferred exploration expenses	55,391	-	55,391
Share-based compensation	58,500	-	58,500
Operating loss	492,980	-	492,980
Finance income	(62,542)	-	(62,542)
Unrealized loss on marketable securities and investments at fair value through profit or loss	275,600	-	275,600
Extension of warrants	660,000	-	660,000
Loss before income tax	1,366,038	-	1,366,038
Deferred income tax recovery	(29,590)	-	(29,590)
Net loss for the year	1,336,448	-	1,336,448
Other comprehensive income			
Change in fair value of available-for-sale investments, net of income tax	(190,410)	-	(190,410)
Other comprehensive income for the year	(190,410)	-	(190,410)
Comprehensive loss for the year	1,146,038	-	1,146,038

Certain amounts on the consolidated statements of loss have been reclassified to conform to the presentation adopted under IFRS, as the consolidated statement of loss under Canadian GAAP incorporated expenses by function and by nature which is not permitted under IFRS.

Explanatory notes

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 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 income tax recovery when eligible expenditures have been made. The tax effect resulting from the renunciation is recorded as a deferred income tax expense when eligible expenditures have been made.

- c) Adjustments to the consolidated statement of cash flows

The transition from Canadian GAAP to IFRS had no impact on the cash flows generated by the Company.

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7 Cash and cash equivalents

	As at December 31, 2011 \$	As at December 31, 2010 \$	As at January 1, 2010 \$
Cash on hand and bank balances	268,984	305,683	608,168
Money market funds	1,589,852	1,828,259	2,001,193
	<u>1,858,836</u>	<u>2,133,942</u>	<u>2,609,361</u>

8 Marketable securities

	<u>As at December 31, 2011</u>		<u>As at December 31, 2010</u>		<u>As at January 1, 2010</u>	
	Maturity	Amount \$	Maturity	Amount \$	Maturity	Amount \$
Bonds						
Corporate	3 years	505,975	4 years	514,030	5 years	499,925
Financial institutions	1 year	<u>519,575</u>	2 years	<u>508,940</u>	3 years	<u>508,645</u>
Total		<u>1,025,550</u>		<u>1,022,970</u>		<u>1,008,570</u>

a) Interest rate

As at December 31, 2011, the bonds bear interest at fixed rates ranging from 3.27% to 4.90% (December 31, 2010 and January 1, 2010 – from 3.27% to 4.90%).

b) Fair value

For the year ended December 31, 2011, the Company recognized in net loss for the year an unrealized gain of \$2,580 (2010 – \$14,400) on marketable securities.

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9 Investments

Investments comprise:

	As at December 31, 2011 \$	As at December 31, 2010 \$	As at January 1, 2010 \$
Common shares of public company	760,000	1,980,000	1,760,000
Warrants of public company	-	-	290,000
	<u>760,000</u>	<u>1,980,000</u>	<u>2,050,000</u>

The gain (loss) on investments during the year comprises the following:

	2011 \$	2010 \$
Available-for-sale financial assets	(1,220,000)	220,000
Financial assets designated at fair value through profit or loss	-	(290,000)

10 Accounts receivable and tax credits receivable

	As at December 31, 2011 \$	As at December 31, 2010 \$	As at January 1, 2010 \$
Accounts receivable			
Sales taxes	9,329	20,867	9,695
Receivable from a partner	75	62,370	67,718
Interest income receivable	5,505	5,506	-
Advance for shale gas permits	-	-	16,150
	<u>14,909</u>	<u>88,743</u>	<u>93,563</u>
Tax credits receivable			
Refundable tax credits and mining duties	<u>26,806</u>	<u>126,609</u>	<u>85,962</u>

Tax credits receivable are classified as current assets.

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11 Property, plant and equipment

	Computer equipment \$	Office furniture \$	Exploration equipment \$	Total \$
As at January 1, 2010				
Cost	11,952	3,440	-	15,392
Accumulated depreciation	(4,841)	(963)	-	(5,804)
Net book amount	7,111	2,477	-	9,588
Year ended December 31, 2010				
Opening net book amount	7,111	2,477	-	9,588
Additions	1,923	2,568	7,800	12,291
Depreciation for the year	(2,422)	(752)	(1,170)	(4,344)
Closing net book amount	6,612	4,293	6,630	17,535
As at December 31, 2010				
Cost	13,875	6,008	7,800	27,683
Accumulated depreciation	(7,263)	(1,715)	(1,170)	(10,148)
Net book amount	6,612	4,293	6,630	17,535
Year ended December 31, 2011				
Opening net book amount	6,612	4,293	6,630	17,535
Additions	-	1,600	-	1,600
Depreciation for the year	(1,983)	(1,019)	(1,989)	(4,991)
Closing net book amount	4,629	4,874	4,641	14,144
As at December 31, 2011				
Cost	13,875	7,608	7,800	29,283
Accumulated depreciation	(9,246)	(2,734)	(3,159)	(15,139)
Net book amount	4,629	4,874	4,641	14,144

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12 Mining and oil and gas properties

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

				For the year ended December 31, 2011		
Property	Note	Number of claims/ licences	Undivided interest %	Balance as at December 31, 2010 \$	Net acquisitions \$	Balance as at December 31, 2011 \$
Lindsay		25	100	980,189	296	980,485
Rimouski	12(a)	2	50	5,999	1,995	7,994
Rimouski North	12(a)	3	50	7,900	2,629	10,529
Trois-Pistoles		8	50	7,879	7,878	15,757
				1,001,967	12,798	1,014,765

				For the year ended December 31, 2010			
Property	Note	Number of claims/ licences	Undivided interest %	Balance as at January 1, 2010 \$	Net acquisitions \$	Writeoff \$	Balance as at December 31, 2010 \$
Lindsay		25	100	978,444	1,745	-	980,189
Cool Lake	12(b)	40	100	2,172	-	(2,172)	-
Rimouski	12(a)	2	50	4,004	1,995	-	5,999
Rimouski North	12(a)	3	50	5,272	2,628	-	7,900
Shawinigan	12(a),(b)	3	50	6,763	-	(6,763)	-
Trois-Pistoles		8	50	-	7,879	-	7,879
				996,655	14,247	(8,935)	1,001,967

- a) On October 28, 2008, the Company entered into an agreement with Brownstone whereby Brownstone acquired a 50% interest in the exploration licences of the Rimouski, Rimouski North and Shawinigan properties in exchange for the issuance to the Company of 2,000,000 common shares valued at \$740,000 and 2,000,000 common share purchase warrants valued at \$103,806. Brownstone is the operator of an exploration program for the territories covered by the licences.
- b) As at December 31, 2010, the Company re-evaluated its portfolio of properties and wrote off the Cool Lake and Shawinigan properties for an amount of \$2,172 and \$6,763, respectively, and deferred exploration expenses for an amount of \$34,955 and \$20,436, respectively, since the Company did not intend to renew its claims and licences.

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13 Deferred exploration expenses

							For the year ended December 31, 2011				
Property	Note	Undivided interest %	Balance as at December 31, 2010 \$	Increase \$	Refundable tax credits and mining duties \$	Balance as at December 31, 2011 \$					
Lindsay		100	519,171	15,000	(5,981)	528,190					
Rimouski	12(a)	50	30,687	13,542	(1,534)	42,695					
Rimouski North	12(b)	50	32,813	13,366	(1,117)	45,062					
Trois-Pistoles		50	335	2,632	(875)	2,092					
			583,006	44,540	(9,507)	618,039					
							For the year ended December 31, 2010				
Property	Note	Undivided interest %	Balance as at January 1, 2010 \$	Increase \$	Writeoff \$	Refundable tax credits and mining duties \$	Balance as at December 31, 2010 \$				
Lindsay		100	415,159	207,075	-	(103,063)	519,171				
Cool Lake	12(b)	100	34,892	107	(34,955)	(44)	-				
Rimouski	12(a)	50	14,434	27,034	-	(10,781)	30,687				
Rimouski North	12(a)	50	15,849	28,211	-	(11,247)	32,813				
Shawinigan	12(a),(b)	50	12,002	14,100	(20,436)	(5,666)	-				
Trois-Pistoles		50	-	585	-	(250)	335				
			492,336	277,112	(55,391)	(131,051)	583,006				

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14 Share capital and warrants and brokers' options

Share capital

Authorized

Unlimited common shares without par value

Warrants and brokers' options

As at December 31, 2011 and 2010, the outstanding warrants and brokers' options that may be exercised to acquire common shares are detailed as follows:

	For the year ended December 31, 2011		For the year ended December 31, 2010	
	Number of warrants	Weighted average exercise price \$	Number of warrants	Weighted average exercise price \$
Warrants – Beginning of year	5,150,000	1.50	5,800,000	1.42
Expired*	(150,000)	1.50	(650,000)	0.70
Warrants – End of year	5,000,000	1.50	5,150,000	1.50

	For the year ended December 31, 2011		For the year ended December 31, 2010	
	Number of brokers' options	Weighted average exercise price \$	Number of brokers' options	Weighted average exercise price \$
Brokers' options – Beginning of year	-	-	400,000	1.50
Expired*	-	-	(400,000)	1.50
Brokers' options – End of year	-	-	-	-

* In 2011, 150,000 warrants and no brokers' options expired unexercised (2010 – 650,000 warrants and 400,000 brokers' options).

No warrants or brokers' options were exercised in 2011 and 2010.

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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. The fair value of the extended warrants was estimated to be \$660,000, considering the fair value of the original warrants left at the date of the modification, 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. No extension of warrants occurred in 2011.

As at December 31, 2011, the following warrants were outstanding:

Number of warrants outstanding	Weighted average remaining contractual life	Expiry date	Exercise price \$
5,000,000	1.5 years	July 2013	1.50

15 Share purchase options

In 1997, the Company adopted a stock option plan (the “Option Plan”), as amended, authorizing the granting of stock options to qualified optionees to purchase a total maximum of 10% of the number of outstanding issued common shares of the Company at any time. This is referred to as a “rolling plan”. Under the Option Plan amended in 2010, the term of stock options granted may not exceed ten years following the date of grant, while the term was five years before the amendment.

In 2010, the Company granted a total of 180,000 stock options to officers and directors of the Company, which are exercisable at \$0.35 per share. Options vested at the grant date. These options will expire on the tenth anniversary of their day of issuance. The fair value options awarded is \$0.325 per share for a total share-based compensation expense of \$58,500. The market price of the Company’s share was equal to the exercise price at the grant date determined on the previous day closing price. No stock options were granted in 2011.

	For the year ended December 31, 2011		For the year ended December 31, 2010	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding options – Beginning of year	1,175,000	1.07	995,000	1.20
Options granted	-	-	180,000	0.35
Outstanding options – End of year	1,175,000	1.07	1,175,000	1.07
Exercisable options	1,175,000	1.07	1,175,000	1.07

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No stock options were exercised in 2011 and 2010.

Information relating to options outstanding and exercisable granted to directors and officers as at December 31, 2011 is as follows:

Number of options outstanding	Weighted average remaining contractual life	Exercise price \$
60,000	0.45 year	1.10
375,000	1.42 years	1.90
270,000	1.66 years	1.00
290,000	2.5 years	0.50
180,000	8.5 years	0.35

The fair value of options at the time of grant was estimated at \$58,500 based on the Black-Scholes option pricing model, using the following weighted average assumptions:

	2010
	\$
Expected life	10 years
Risk-free interest rate	3.08%
Expected volatility	110%
Expected dividend yield	Nil
Expected forfeiture rate	0%

16 Related party transactions and compensation of key management

Related party transactions

Related party transactions occurred in the normal course of business. Unless indicated otherwise, the following transactions are included in the consolidated statements of loss:

	2011	2010
	\$	\$
A director or a company held by directors		
Rent	10,750	-
Officers or a company held by officers		
Consulting fees	199,050	216,690
Rent	24,000	24,000

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As at December 31, 2011, the balance due to related parties amounts to \$10,988 (December 31, 2010 – \$38,383). This amount is subject to the same conditions as those of non-related parties.

Compensation of key management

The Company has a service agreement with a related party to provide management services to the Company, including senior executives. Because of the service agreement, the Company has no employee benefits expense.

Key management includes directors and senior executives. The compensation paid or payable to key management is presented below:

	2011 \$	2010 \$
Key management services and directors' fees	156,960	178,020
Share-based compensation expense	-	58,500
	<u>156,960</u>	<u>236,520</u>

17 Income tax

The major components of income tax expense (recovery) are as follows:

	2011 \$	2010 \$
Income tax expense applicable to:		
Deferred income tax expense (recovery)		
Relating to writedown of a deferred income tax asset	159,638	-
Relating to amount of benefit related to previously unrecognized capital tax loss	-	(25,590)
	<u>159,638</u>	<u>(25,590)</u>
Total deferred income tax expense (recovery)		

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A reconciliation between income tax expense and the product of accounting loss multiplied by the Company's domestic tax rate is as follows:

	2011 \$	2010 \$
Statutory tax rate	28.4%	29.9%
Tax benefit of statutory rate	(102,062)	(408,445)
Tax effect of unrecognized deferred income tax asset	254,454	24,478
Non-capital loss carryforwards forfeited during the year	-	12,269
Impact of change in federal deferred income tax rate	5,348	11,904
Permanent differences	(366)	41,202
Taxable capital gains on warrants	1,089	73,726
Non-taxable losses	1,175	211,560
Other	-	3,716
Total deferred income tax expense (recovery)	<u>159,638</u>	<u>(29,590)</u>

The 2011 statutory tax rate of 28.4% differs from the 2010 statutory tax rate of 29.9% because of enacted federal tax rate reductions that came into effect on January 1, 2011.

The tax benefits of the following temporary differences have not been recognized in the consolidated financial statements:

	As at December 31, 2011 \$	As at December 31, 2010 \$
Deferred income tax assets (liabilities)		
Non-capital loss carryforward	652,485	506,283
Capital loss	1,476,708	1,477,797
Investments	2,168	(159,638)
Resource assets	199,916	198,573
Tax benefit on share issue expenses	44,575	95,867
Net deferred income tax assets	<u>2,375,852</u>	<u>2,118,882</u>

As at December 31, 2011, the tax base of the exploration and evaluation assets totalled approximately \$2,343,811 (December 31, 2010 – \$2,302,061). The difference between the tax base and the amount capitalized is due mainly to the fact that certain exploration and evaluation assets were written down.

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As at December 31, 2011, the Company had accumulated non-capital losses for tax purposes of approximately \$2,425,595 (December 31, 2010 – \$1,882,092) which can be used to reduce taxable income in future years as follows:

Expiration date of tax loss carryforwards	Year incurred	Federal and provincial \$
2014	2004	65,400
2015	2005	84,901
2026	2006	91,495
2027	2007	348,096
2028	2008	348,762
2029	2009	452,504
2030	2010	490,934
2031	2011	543,503
		<u>2,425,595</u>

The Company's balance of capital losses amounts to approximately \$10,979,239 and can be carried forward indefinitely to be used against future capital gains.

The Company is subject to federal and provincial income taxes and provincial mining taxes. Tax laws are complex and can be subject to different interpretations. The Company has prepared its tax provision based on the interpretations of tax laws which it believes represent the probable outcome. The Company may be required to change its provision for income tax if the tax authorities ultimately are not in agreement with the Company's interpretation.

18 Financial risk management objectives and policies, and financial risks

Financial risk management objectives and policies

The Company is exposed to various financial risks resulting from both its operations and its investment activities. The Company's management manages financial risks. The Company does not enter into financial instrument agreements, including derivative financial instruments, for speculative purposes.

The main financial risks to which the Company is exposed are detailed below.

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Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. As further mentioned in note 1, the Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities. As at December 31, 2011, the Company had cash and cash equivalents amounting to \$1,858,836 (December 31, 2010 – \$2,133,942) to settle current liabilities of \$31,636 (December 31, 2010 – \$71,758). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is subject to concentrations of credit risk through cash and cash equivalents, marketable securities, investments and accounts receivable. Accounts receivable consists mainly of goods and services tax due from the federal government and provincial sales tax due from the Quebec government, amounts receivable from a partner and interest receivable from reputable institutions. The Company reduces its credit risk by maintaining part of its cash and cash equivalents in financial instruments guaranteed by and held with a Canadian chartered bank and the remainder in financial instruments guaranteed by Canadian chartered banks held with an independent investment dealer member of the Canadian Investor Protection Fund. The marketable securities are composed of bonds from reputable financial and corporate institutions.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as market price and interest rates.

Price risk

The Company is exposed to price risk on equity securities because of its investments held. When trading its shares, unfavourable market conditions could result in the disposal of the Company's listed shares at less than their value as at December 31, 2011. A 1% variation in the closing price on the stock market would result in an estimated \pm \$7,600 of net loss at year-end.

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Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company has cash balances, and its current policy is to invest excess cash in certificates of deposit or money market funds of major Canadian chartered banks. The bonds comprising marketable securities bear interest at fixed rates, and the Company is therefore exposed to the risk of changes in fair value resulting from interest rate fluctuations. The sensitivity of the Company to a 1% fluctuation in the interest rate would not have a significant impact. The Company's other financial assets and financial liabilities are not subject to interest rate risk since they are non-interest bearing.

Fair value hierarchy

Level 1 includes unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 includes inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly or indirectly. And Level 3 includes inputs for the assets or liabilities that are not based on observable market data. For those fair value measurements included in Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances has been provided.

	Financial assets measured at fair value			
	As at December 31, 2011			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial assets at fair value through profit or loss				
Money market funds	1,589,852	-	-	1,589,852
Marketable securities	-	1,025,550	-	1,025,550
	1,589,852	1,025,550	-	2,615,402
Available for sale				
Investment in common shares of public company	760,000	-	-	760,000

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	Financial assets measured at fair value As at December 31, 2010			
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets at fair value through profit or loss				
Money market funds	1,828,259	-	-	1,828,259
Marketable securities	-	1,022,970	-	1,022,970
	<u>1,828,259</u>	<u>1,022,970</u>	<u>-</u>	<u>2,851,229</u>
Available for sale				
Investment in common shares of public company	<u>1,980,000</u>	<u>-</u>	<u>-</u>	<u>1,980,000</u>

	Financial assets measured at fair value As at January 1, 2010			
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets at fair value through profit or loss				
Money market funds	2,001,193	-	-	2,001,193
Marketable securities	-	1,008,570	-	1,008,570
Investment in warrants of public company	-	-	290,000	290,000
	<u>2,001,193</u>	<u>1,008,570</u>	<u>290,000</u>	<u>3,299,763</u>
Available for sale				
Investment in common shares of public company	<u>1,760,000</u>	<u>-</u>	<u>-</u>	<u>1,760,000</u>

	Reconciliation of long-term investments measured at fair value based on Level 3 inputs	
	2011 \$	2010 \$
Investment in warrants of public company		
Balance – Beginning of year	-	290,000
Expiration	-	(290,000)
Balance – End of year	<u>-</u>	<u>-</u>

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19 Capital management policies and procedures

The Company's capital management objectives are to ensure that the Company is able to pursue its operations, including the acquisition and exploration and evaluation of mining properties.

The Company considers equity, which totals \$5,309,384 as at December 31, 2011 (December 31, 2010 – \$6,888,758), as its capital.

The Company manages its capital structure and makes adjustments to ensure that sufficient liquidity is available to pursue its mining property exploration and evaluation activities. Accordingly, as necessary, it will attempt to obtain additional capital through equity markets.

The Company is not subject to any externally imposed capital requirements, other than capital requirements for funds reserved for exploration and evaluation which must be used for explorations and evaluation expense.