X·TERRA

RESOURCES CORPORATION

ANNUAL REPORT 2013

X-TERRA RESOURCES CORPORATION

(an exploration stage company)

(the “Corporation” or “X-Terra”)

MANAGEMENT DISCUSSION AND ANALYSIS (“MD&A”)

FOR THE YEAR ENDED DECEMBER 31, 2013 (the “Period”)

The following MD&A of X-Terra’s operating results and financial position follows regulation 51-102 *respecting Continuous Disclosure Obligations* for reporting issuers. It is a complement and supplement to the Corporation’s consolidated financial statements and related notes for the year ended December 31, 2013 and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2013 and the related notes thereto. The Corporation prepares its financial statements in accordance with International Financial Reporting Standards (“**IFRS**”), The audited consolidated financial statements for the year ended December 31, 2013 have been prepared in accordance with IFRS applicable to the preparation of financial statements, 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 Corporation 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 Corporation 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 Corporation’s financial statements.

DATE

This MD&A is prepared as of April 28, 2014.

OVERALL PERFORMANCE

Description of Business

X-Terra, an exploration stage company, is in the business of acquiring, exploring and developing mining properties. It has interests in graphite and rare earths properties as well as an important portfolio of shales gas licenses at the exploration stage located in the province of Quebec in Canada. In October 2013, the Corporation entered into a letter of intent (amended on November 29, 2013 and March 4, 2014, see press release March 5, 2014) with an arm’s-length Toronto-based private company called Norvista Capital Corporation (“**Norvista Capital**”), for a reverse take-over of X-Terra and the “spin-out” of X-Terra’s resource properties in a new public company. The letter of intent provides that X-Terra will amalgamate or otherwise combine with the Toronto-based company and become a natural resources merchant bank. At the same time, X-Terra will transfer all of its resource properties and all of its liabilities to a new company, and distribute the shares of the new company to X-Terra’s shareholders. As a result, at the closing of the proposed transaction, X-Terra’s shareholders will become shareholders of a new natural resources merchant bank and shareholders of a new company which will carry on X-Terra’s current natural resource business (see details of the transaction in the Subsequent Event section of this MD&A).

The Corporation 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 mining resources and oil and gas properties in which the Corporation has earned or in the future may earn an interest.

The Corporation 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.

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 the Villedieu Township.

The property is underlaid 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. The Corporation has completed a National Instrument 43-101 technical report on its Lindsay rare earth property in Kipawa. The Lindsay project is a mid-stage exploration project with historical uranium and rare-earth-elements occurrences and economic potential for these commodities. Area participants, like Matamec Explorations and Fieldex Exploration continue to make progress confirming the potential for other significant discoveries in the Kipawa alcalin complex.

Sheldon Property (76 claims - Graphite)

In today's world graphite is a critical, strategic material and X-Terra's management believes that the Corporation should be involved in this very interesting mineral for these specific reasons:

- Importance will grow with green technologies;
- Up to 10 times more graphite in a li-ion battery than lithium;
- Demand will outstrip supply;
- Just for one market – EV cars – demand by 2020 will require more than is produced globally today;
- There is the electronics market, nuclear energy as well as Graphene; and
- Alternative exploration to the indefinite shale gas moratorium imposed by the Quebec provincial government.

X-Terra acquired by designation on the Quebec Government platform GESTIM, 76 mining claims totaling 43 square kilometres located in the Gaspesia area, west of the former "Federal Mine" (Lead-Zinc-Silver) and north of the city of Chandler (Province of Quebec).

It is estimated that the world reserves of graphite exceed 800 million tons. China is the most significant graphite-producing nation, providing nearly one-half of the United States' annual graphite demand. Flake graphite is also imported to the United States from Brazil, Canada, and Madagascar. Lump graphite is imported from Sri Lanka. Graphite resources in the United States are very small. At one time a significant deposit at Ticonderoga, New York, was exploited, but this source no longer produces graphite. For a number of years, the United States has not produced natural mineral graphite and is completely dependent on the combination of imported, synthetic graphite, and recycled graphite sources.

Uses

Because graphite flakes slip over one another, giving it its greasy feel, graphite has long been used as a lubricant in applications where "wet" lubricants, such as oil, cannot be used. Technological changes are reducing the need for this application. Natural graphite is used mostly in what are called refractory applications. Refractory applications are those that involve extremely high heat and therefore demand materials that will not melt or disintegrate under such extreme conditions. One example of this use is in the crucibles used in the steel industry. Such refractory applications account for the majority of the usage of graphite. It is also used to make brake linings, lubricants, and molds in foundries. A variety of other industrial uses account for the remaining graphite consumed each year.

The data compilation phase is currently in progress and an exploration budget will be presented to the Board of Directors in the coming months.

Other projects

The Corporation is continuously looking to add resource-based projects in its portfolio of properties.

2. Shale gas properties

In March 2011, a 3-years de facto moratorium was placed on shale gas exploration in Quebec by the former Liberal government. This was in response to widespread public concern over the effects of shale gas development and hydraulic fracturing on groundwater quality. In September 2012, a minority Parti Quebecois (PQ) government headed by Pauline Marois has come into power. Part of the PQ government's campaign platform was to uphold the shale gas moratorium imposed by its predecessor. In early February 2013, Environment Minister Yves-François Blanchet announced legislation to ban exploration along the St. Lawrence Valley and suspend any exploration already in progress, at least until the completion of a Strategic Environmental Assessment (SEA) mandated by the Liberals under the initial moratorium, and formal industry regulations are set up and implemented. On April 7th, 2014, a majority Liberal government headed by Philippe Couillard was elected so we will expect an update on Shale gas industry by the new government. In the meantime no new exploration operations were undertaken and this situation will continue until the end of the Moratorium on Shale gas exploration and production.

Rimouski and Rimouski North Properties (5 licences)

Oil and gas exploration in Quebec 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 Energy 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 and 2,000,000 common shares purchase warrants. X-Terra still owns theses shares but all warrants have expired.

X-Terra and its partner Brownstone 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. The maps are available on the Corporation's website at www.xterraresources.com.

Trois-Pistoles property (8 licences)

The Corporation with its partner Brownstone have acquired 157,570 hectares of additional land in the St. Laurent Lowlands between Rimouski and Rivière-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.

SUMMARY OF ANNUAL AND QUARTERLY INFORMATION

Selected Annual Information and Operation Results

The following selected financial data are derived from the audited consolidated financial statements of the Corporation for the fiscal years ended December 31, 2013, 2012 and 2011:

	Fiscal year ended December 31,		
	2013	**2012**	**2011**
	($)	**($)**	**($)**
Interest income	34,865	55,816	63,647
Net loss	(744,530)	(661,365)	(521,380)
Basic and diluted net loss per share	(0.06)	(0.06)	(0.04)
Total assets	4,097,300	4,700,189	5,338,652

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

The Corporation is an exploration company, and, accordingly, does not generate revenue on a regular basis and must continually issue shares in order to further explore its mineral and oil and gas properties and its operations. During the fiscal year 2013, the Corporation registered a net loss of $744,530 in comparison with a net loss registered for the fiscal year 2012 of $661,365. The Corporation has recorded, for 2013, interest income of $34,865 ($55,816 in 2012). The Corporation recorded an unrealized loss on marketable securities at fair value through profit or loss of $6,990 (gain in 2012 - $9,190) and recorded no realized loss on marketable securities and investments at fair value through profit or loss (loss in 2012 - $19,575). The Corporation recorded impairment on investments of $330,000 in 2013 against $368,151 for 2012. The Corporation’s expenses for 2013 are at $442,405 (2012 - $338,645) and include share-based compensation of $51,450 (2012 - $9,900). Professional fees have increased from $53,485 in 2012 to $183,645 in 2013. The increase comes from the accountant and lawyer fees regarding the reverse take-over transaction. Office and general fees have decreased and went from $46,374 in 2012 to $37,302 in 2013. Consulting fees have decreased and went from $174,754 in 2012 to $111,980 in 2013. This decrease is partly due to the fact that the President of the Corporation decreased his consultant fees from $6,000 per month to $3,000. Conference and promotion fees have decreased and went from $16,544 in 2012 to $7,849 in 2013. Allocated sums for public company expenses went from $24,497 in 2012 to $47,452 in 2013, also because of the reverse take-over transaction. The Corporation recorded no exploration expenses in 2013 ($9,335 in 2012). 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:

	$ 2013	$ 2012
Office leasing	25,140	30,840
Insurances	8,198	8,250
Office operations and facilities	3,964	7,284
	37,302	46,374

Financing activities
No financing has been raised in 2013.

Investing activities
In 2013, the Corporation had no cash outflow in acquisition of property, plant and equipment, a cash outflow of $16,572 in acquisition of mining and oil and gas properties and $58,511 in deferred exploration expenses. In 2013, the Corporation received $17,319 in tax credits and mining duties and should receive $24,979 during 2014.

Liquidity and working capital
As at December 31, 2013, the Corporation had a working capital of $2,277,626 (December 31, 2012 - $3,002,629), which included cash and cash equivalents of $1,702,514 (December 31, 2012 - $2,054,073). As at December 31, 2013, the Corporation's working capital represents $0.19 per share.

The exercise of the 1,000,000 outstanding stock options as of the date of this report represents an added potential financing of $253,500. These options expire between 2014 and 2023 and have an exercise price between $0.10 and $0.50.

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	2013	2013	2013	2013	2012	2012	2012	2012
Revenues	8,481	8,773	9,096	8,515	11,367	14,576	14,881	14,992
Loss for the period	(202,655)	(91,926)	(129,449)*	(320,500)*	(416,343)	(80,780)	(91,723)	(72,519)
Basic and diluted loss per share	(0.01)	(0.01)	(0.01)	(0.03)	(0.04)	(0.01)	(0.00)	(0.01)
Total assets	4,097,300	4,218,852	4,296,829	4,437,351	4,700,189	4,796,293	4,863,252	5,201,747

* The net loss of the first and second quarters of 2013 have been restated to give effect to the recording of the additional declines in fair value of the Corporation's available-for-sale investments in shares of a public company directly in the consolidated statement of loss instead of through other comprehensive loss as it had been previously reported. The details of the restatement are disclosed on note 9 to the interim condensed consolidated financial statements for the nine-month and three-month periods ended September 30, 2013.

Fourth Quarter
During the three-month period ended December 31, 2013, the Corporation registered a net loss of $202,655 in comparison with a net loss of $416,343 for the same quarter in 2012. The Corporation has recorded, for the quarter ended December 31, 2013, interest income of $8,481 ($11,367 for the quarter ended December 31, 2012), no realized loss on marketable securities (realized loss on marketable securities of $19,575 for the quarter ended December 31, 2012), unrealized loss on marketable securities of $1,650 (unrealized loss on marketable securities of $4,685 for the quarter ended December 31, 2012) and no impairment on investments (impairment on investments of $368,151 for the quarter ended December 31, 2012). The Corporation's expenses for the quarter ended December 31, 2013 are at $209,486 ($55,169 for the quarter ended December 31, 2012). Professional fees have increased from $2,352 for the quarter ended December 31, 2012 to $140,112 for the quarter ended December 31, 2013. The increase comes from the accountant and lawyer fees regarding the reverse take-over transaction. Office and general expenses have increased and went from a negative amount of $291 for the quarter ended December 31, 2012 to $9,475 for the quarter ended December 31, 2013. Consulting fees have decreased and went from $39,960 for the quarter ended December 31, 2012 to $32,380 for the quarter ended December 31, 2013. Conference and promotion fees have increased and went from $1,329 for the quarter ended December 31, 2012 to $1,966 for the quarter ended December 31, 2013. Allocated sums for public company expenses went from $1,545 for the quarter ended December 31, 2012 to $24,871 for the quarter ended December 31, 2013, also because of the reverse take-over transaction. The other administrative expenses remained relatively stable, are cyclical and may fluctuate according to the events, which are not always predictable.

<u>Mining and Oil and Gas Properties</u> <u>(All properties are located in Canada)</u>

Deferred exploration expenses

Property	Undivided interest %	Balance – Beginning of year $	Increase $	Refundable tax credits and mining duties $	Balance – End of year $
		For the year ended December 31, 2013			
Lindsay	100	550,228	1,447	(506)	551,469
Rimouski	50	43,171	62	(22)	43,211
Rimouski North	50	45,496	62	(22)	45,536
Trois-Pistoles	50	2,092	-	-	2,092
Sheldon Qc	100	-	54,961	(27,904)	27,057
		641,287	56,532	(28,454)	669,365

Property	Undivided interest %	Balance – Beginning of year $	Increase $	Refundable tax credits and mining duties $	Balance – End of year $
		For the year ended December 31, 2012			
Lindsay	100	528,190	34,118	(11,780)	550,228
Rimouski	50	42,695	696	(220)	43,171
Rimouski North	50	45,062	632	(198)	45,496
Trois-Pistoles	50	2,092	-	-	2,092
		618,039	35,446	(12,198)	641,287

	2013 $	2012 $
Deferred exploration expenses		
Accommodations	7,332	12,882
Maps, printing and drafting	1,965	-
Assay and geochemical analyses	672	662
Geology	46,358	20,919
Fees for supervision of work	205	983
	56,532	35,446
Deductions		
Refundable tax credits and mining duties	(28,454)	(12,198)
Increase in deferred exploration expenses	28,078	23,248
Balance – Beginning of year	641,287	618,039
Balance – End of year	669,365	641,287

<u>PROJECTED OPERATIONS</u>

The Corporation does not foresee any important acquisition or disposal of property, with the exception of the proposed transaction described in the Subsequent Event section below.

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 Corporation.

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:

	2013	**2012**
	$	**$**
Officers or a corporation held by officers		
Consulting fees	111,980	174,160
Rent	24,000	24,000
	135,980	198,160

As at December 31, 2013, the balance due to related parties amounts to $10,256 (2012 – $13,797). This amount is subject to the same conditions as those of non-related parties.

Compensation of key management

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

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

	2013	**2012**
	$	**$**
Key management services and directors' fees	85,400	124,780
Share-based compensation expense	51,450	9,900
	136,850	134,680

SUBSEQUENT EVENT

On April 28, 2014, the Corporation entered into an Asset Transfer Agreement with X-Terra Resources Inc. ("**New X-Terra**"), a wholly-owned subsidiary of the Corporation, for a proposed "spin-out" (the "**Spin-Out**") of substantially all of the assets and all of the liabilities of the Corporation to New X-Terra and the distribution of a portion of the shares of New X-Terra to the shareholders of the Corporation. On April 28, 2014, the Corporation also entered into a Share Exchange Agreement with Norvista Resources Corporation and Norvista Capital Corporation for a reverse take-over of the Corporation involving Norvista Capital Corporation (the "**Reverse Take-Over**"), following which the name of the Corporation will be changed to "Norvista Capital Corporation" ("**New Norvista**"). After the Spin-Out and Reverse Take-Over, current shareholders of the Corporation will become shareholders of New X-Terra, which will carry on the Corporation's current mining exploration business, as well as shareholders of New Norvista, which will be a natural resources merchant bank.

Completion of the Spin-Out and Reverse Take-Over is subject to a number of conditions, including but not limited to, regulatory approval, including that of the TSX Venture Exchange, shareholder approval and financing.

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 Corporation's critical accounting policies and critical accounting estimates in Note 6 of the audited consolidated financial statements for the year ended December 31, 2013.

The significant accounting policies that have been applied in the preparation of these financial statements are summarized below.

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.

From time to time, the Corporation 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.

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 Corporation.

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.

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 or in equity, in which case it is recognized in other comprehensive income 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 balance sheet 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.

FINANCIAL INSTRUMENTS

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

Liquidity risk

Liquidity risk is the risk that the Corporation 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, 2013, the Corporation’s liquidity and operating results may be adversely affected if the Corporation’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 Corporation. The Corporation generates cash flow primarily from its financing activities. As at December 31, 2013, the Corporation had a cash and cash equivalents amounting to $1,702,514 (December 31, 2012 - $2,054,073) to settle current liabilities of $96,678 (December 31, 2012 - $16,487). All of the Corporation's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Corporation 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 Corporation 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 (reimbursed in 2013) and interest receivable from reputable institutions. The Corporation 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.

The carrying amount representing the maximum credit exposure of the Corporation by class of financial assets is as follows:

	2013 $	2012 $
Loans and receivables		
Accounts receivable	33,098	11,415

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

Price risk
The Corporation is exposed to price risk because of its investments held in a junior exploration company. When trading its shares, unfavourable market conditions could result in the disposal of the Corporation’s listed shares at less than their value as at December 31, 2013. A 10% variation in the closing price on the stock market would result in an estimated variation of ±$10,000 of net loss at year-end.

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 Corporation 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 Corporation is therefore exposed to the risk of changes in fair value resulting from interest rate fluctuations. The sensitivity of the Corporation to a 1% fluctuation in the interest rate would not have a significant impact. The Corporation’s other financial assets and financial liabilities are not subject to interest rate risk since they are non-interest bearing.

Fair value
Fair value estimates are made at the statement of financial position date, based on relevant market information and other information about financial instruments.

The Corporation’s financial instruments as at December 31, 2013 consist of cash and cash equivalents, marketable securities, available-for-sale investments and accounts payable and accrued liabilities. The fair value of these financial instruments (other than cash and cash equivalents held in money market funds, marketable securities and available-for-sale investment) approximates their carrying value due to their short maturity and current market rates.

Fair value hierarchy
Financial instruments in Level 1
The fair value of financial instruments traded in active markets is based on quoted market prices on a recognized securities exchange at the statement of financial position dates. The quoted market price used for financial assets held by the Corporation is the last transaction price. Instruments included in Level 1 consist primarily of common shares trading on the TSX.

Financial instruments in Level 2
The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques.

These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on the Corporation’s specific estimates. If all significant inputs required to measure the fair value of an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs are not based on observable market data, the instrument is included in Level 3. As at December 31 2013 and 2012, there are no Level 3 financial instruments.

	Financial assets measured at fair value As at December 31, 2013			
	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets and liabilities at fair value through profit or loss				
Money market funds	1,681,943	-	-	1,681,943
Marketable securities	-	508,175	-	508,175
	1,681,943	508,175	-	2,190,118
Available for sale				
Investment in common shares of public company	100,000	-	-	100,000

	Assets measured at fair value As at December 31, 2012			
	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets and liabilities at fair value through profit or loss				
Money market funds	1,947,684	-	-	1,947,684
Marketable securities	-	515,165	-	515,165
	1,947,684	515,165	-	2,462,849
Available for sale				
Investment in common shares of public company	420,000	-	-	420,000

Risk and Uncertainties

The securities of the Corporation are highly speculative. In evaluating the Corporation, it is important to consider that it is a resources exploration enterprise in the exploratory stage of its operations. To date, the Corporation has had no revenues and there is no immediate expectation of revenues. A prospective investor or other person reviewing the Corporation 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 Corporation's business including:

Mineral Exploration and Development

The Corporation'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 Corporation'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 Corporation'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 Corporation'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 Corporation may determine that it is impractical to commence or continue commercial production.

Environmental Regulations
The Corporation 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 Corporation'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 Corporation'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 Corporation's properties, which hazards are unknown to the Corporation at present, which may have been caused by previous or existing owners or operators of the properties. The Corporation is not aware of any environmental hazards on any of the properties held by the Corporation.

The Corporation 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 Corporation's activities are in compliance in all material respects with applicable environmental legislation. The Corporation 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 Corporation 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 Corporation. Notwithstanding that the exploration and operating concessions in respect of which the Corporation may hold various interests have been surveyed, the precise boundary locations thereof may be in dispute. Although the Corporation 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 Corporation'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 Corporation 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 Corporation's name, the underlying title holder has to assign title to the Corporation once the Corporation 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 Corporation 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 Corporation is also participating, such directors and officers of the Corporation 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 Corporation is subject, requires the directors and officers of the Corporation to act honestly and in good faith with a view to the best interests of the Corporation. However, in conflict of interest situations, directors of the Corporation 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 Corporation 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 Corporation will participate in a particular program and the interest therein to be acquired by it, it is expected that

the directors of the Corporation will primarily consider the degree of risk to which the Corporation may be exposed and its financial position at the time.

Governmental Regulation
Operations, development and exploration on the Corporation’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 Corporation’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 Corporation is at the exploration stage on all of its properties. Exploration on the Corporation’s properties requires responsible best exploration practices to comply with Corporation policy, government regulations, and maintenance of claims and tenure. The Corporation 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 Corporation 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 Corporation’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 Corporation may possess.

Also, no assurance can be made that Canada Revenue Agency and provincial agencies will agree with the Corporation'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 Corporation 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 Corporation with the objective of establishing mineralization of commercial quantities. The Corporation 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 Corporation, the Corporation 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 Corporation 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 Corporation 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 Corporation 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 Corporation 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 Corporation. The Corporation does not maintain “key-man” insurance in respect of any of its management.

Lack of operating profit
The Corporation was incorporated on February 24, 1987 and since incorporation, has not realized net income except for 2008 nor paid dividends. The Corporation's properties are in the exploration stage and to date none of them have a proven

ore body. The Corporation 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 Corporation will continue to experience operating losses for the foreseeable future. There can be no assurance that the Corporation will ever achieve significant revenues or profitable operations.

Competition
The mining industry is intensely competitive in all its phases. The Corporation 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 Corporation may become subject to liability for pollution or other hazards, which cannot be insured against or against which the Corporation 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 Corporation assets or the insolvency of the Corporation.

OTHER MD&A REQUIREMENTS

Share capital

As at April 28, 2014, the Corporation had the following:
Issued and outstanding- 11,783,069 shares

Stock purchase options outstanding:

Expiry date	Number of options outstanding	Number of options exercisable	Exercise price ($)
July 2014	265,000	265,000	0.50
June 2020	160,000	160,000	0.35
July 2022	50,000	50,000	0.25
July 2023	525,000	525,000	0.10
	1,000,000	1,000,000	

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 Corporation's web address is www.xterraresources.com. Further information regarding the Corporation 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 Corporation 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 28, 2014.

(S) Martin Dallaire
Martin Dallaire, President and Chief Executive Officer

(S) Sylvain Champagne
Sylvain Champagne, Chief Financial Officer

CORPORATE INFORMATION

<u>Directors</u>
Martin Dallaire
Sylvain Champagne (1)
Sheldon Inwentash
Gerry Feldman (1)
Sébastien Plouffe (1)
Xin Zhao (1)

(1) Audit Committee member

<u>Officers</u>
Martin Dallaire
President and Chief Executive Officer

Sylvain Champagne
Chief Financial Officer

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

<u>Transfer Agents</u>
Computershare Canada
1500, University Street – Suite 700
Montreal (Quebec) H3A 3S8

<u>Solicitors</u>
Fasken Martineau DuMoulin s.e.n.c.r.l. / s.r.l
800 Place Victoria, Suite 3700
Montreal (Quebec) H4Z 1E9

<u>Exchange Listing</u>
TSX Venture Exchange
Ticker symbol: XT
CUSIP: 98386Y
ISIN: CA 98386Y1034

<u>Head Office</u>
139, Quebec Avenue – Suite 202
Rouyn-Noranda, Quebec, Canada J9X 6M8
Telephone: 819-762-0609

X-Terra Resources Corporation

Consolidated Financial Statements
December 31, 2013 and 2012
(expressed in Canadian dollars)

April 28, 2014

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, 2013 and 2012 and the consolidated statements of loss, comprehensive loss, changes in equity and cash flows for the years then ended, 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 audit 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.
1250 René-Lévesque Boulevard West, Suite 2800, Montréal, Quebec, Canada H3B 2G4
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, 2013 and 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP[1]

---

[1] CPA auditor, CA, public accountancy permit No. A123642

X-Terra Resources Corporation

Consolidated Statements of Financial Position

As at December 31, 2013 and 2012

(expressed in Canadian dollars)

	Note	2013 $	2012 $
Assets			
Current assets			
Cash and cash equivalents	7	1,702,514	2,054,073
Marketable securities	8	508,175	515,165
Investment	9	100,000	420,000
Accounts receivable	10, 18	33,098	11,415
Tax credits receivable	10	24,979	12,929
Prepaid insurance		5,538	5,534
		2,374,304	3,019,116
Non-current assets			
Property, plant and equipment	11	7,661	10,388
Mining and oil and gas properties	12	1,045,970	1,029,398
Deferred exploration expenses	13	669,365	641,287
		1,722,996	1,681,073
Total assets		4,097,300	4,700,189
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		96,678	16,487
Total liabilities		96,678	16,487
Equity			
Share capital	14	25,466,499	25,466,499
Warrants	14	-	1,840,527
Contributed surplus		4,586,837	2,694,860
Accumulated other comprehensive income		10,000	-
Deficit		(26,062,714)	(25,318,184)
Total equity		4,000,622	4,683,702
Total liabilities and equity		4,097,300	4,700,189
Subsequent event	20		

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, 2013 and 2012

(expressed in Canadian dollars, except number of shares)

	Note	2013 $	2012 $
Expenses			
Professional fees		183,645	53,485
Consulting fees	16	111,980	174,754
Public company expenses		47,452	24,497
Office and general	16	37,302	46,374
Conference and promotion		7,849	16,544
Depreciation	11	2,727	3,756
Exploration expenses		-	9,335
Share-based compensation	15, 16	51,450	9,900
Operating loss		442,405	338,645
Finance income		(34,865)	(55,816)
Realized loss on marketable securities at fair value through profit or loss	8	-	19,575
Unrealized loss (gain) on marketable securities at fair value through profit or loss	8	6,990	(9,190)
Impairment on available-for-sale investment	9	330,000	368,151
Net loss for the year		744,530	661,365
Basic and diluted net loss per share		0.06	0.06
Weighted average number of shares outstanding			
Basic and diluted		11,783,069	11,783,069

Net loss is solely attributable to X-Terra Resources Corporation shareholders.

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, 2013 and 2012

(expressed in Canadian dollars)

	Note	2013 $	2012 $
Net loss for the year		744,530	661,365
Other comprehensive loss (income) that may be reclassified subsequently to net loss			
Changes in fair value of available-for-sale investment			
Unrealized loss (gain)	9	(10,000)	340,000
Impairment on available-for-sale investment			
Reclassification to the statement of loss	9	-	(368,151)
Other comprehensive income that may be reclassified subsequently to net loss		(10,000)	(28,151)
Comprehensive loss for the year		734,530	633,214

Comprehensive loss is solely attributable to X-Terra Resources Corporation shareholders.

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 $	Contributed surplus $	Accumulated other comprehensive income (loss) $	Deficit $	Total equity $
Balance – January 1, 2012	11,783,069	25,466,499	1,840,527	2,684,960	(28,151)	(24,656,819)	5,307,016
Net loss for the year					-	(661,365)	(661,365)
Other comprehensive income					28,151	-	28,151
Comprehensive loss for the year					28,151	(661,365)	(633,214)
Share-based compensation	-	-	-	9,900	-	-	9,900
Balance – December 31, 2012	11,783,069	25,466,499	1,840,527	2,694,860	-	(25,318,184)	4,683,702
Balance – January 1, 2013	11,783,069	25,466,499	1,840,527	2,694,860	-	(25,318,184)	4,683,702
Net loss for the year					-	(744,530)	(744,530)
Other comprehensive income					10,000	-	10,000
Comprehensive loss for the year					10,000	(744,530)	(734,530)
Share-based compensation	-	-	-	51,450	-	-	51,450
Warrants expired	-	-	(1,840,527)	1,840,527	-	-	-
Balance – December 31, 2013	11,783,069	25,466,499	-	4,586,837	10,000	(26,062,714)	4,000,622

Accumulated other comprehensive income (loss) relates solely to available-for-sale investments.

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, 2013 and 2012

(expressed in Canadian dollars)

	Note	2013 $	2012 $
Cash flows provided by (used in)			
Operating activities			
Net loss for the year		(744,530)	(661,365)
Adjustments for:			
Depreciation		2,727	3,756
Unrealized loss (gain) on marketable securities arising from changes in fair value	8	6,990	(9,190)
Realized loss on marketable securities arising from changes in fair value	8	-	19,575
Share-based compensation	15	51,450	9,900
Impairment on available-for-sale investment	9	330,000	368,151
		(353,363)	(269,173)
Changes in items of working capital			
Accounts receivable		(21,683)	3,494
Prepaid insurance		(4)	69
Accounts payable and accrued liabilities		81,255	(13,829)
		59,568	(10,266)
Net cash used in operating activities		(293,795)	(279,439)
Investing activities			
Proceeds on disposal of marketable securities		-	500,000
Tax credits received		17,319	26,075
Expenditures on mining and oil and gas properties		(16,572)	(14,633)
Expenditures on deferred exploration expenses		(58,511)	(36,766)
Net cash provided by (used in) investing activities		(57,764)	474,676
Net change in cash and cash equivalents during the year		(351,559)	195,237
Cash and cash equivalents – Beginning of year		2,054,073	1,858,836
Cash and cash equivalents – End of year	7	1,702,514	2,054,073
Supplemental information			
Deferred exploration expenses included in accounts payable and accrued liabilities		500	1,564
Interest received		16,956	42,056

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

(expressed in Canadian dollars, except as otherwise stated)

1 Nature of operations and liquidity

X-Terra Resources Corporation (the "Corporation") was incorporated on February 24, 1987 under the Corporations Act of the Province of British Columbia in Canada and is listed on the TSX Venture Exchange (TSX). In 2008, shareholders approved a special resolution authorizing the continuance of the Corporation under the Canada Business Corporations Act. On September 4, 2008, the Corporation obtained a Certificate and Articles of Continuance under the Act, rendering the continuance effective. The address of the Corporation's headquarters and registered office is 202-139 Québec Avenue, Rouyn-Noranda, Quebec, Canada. The Corporation, an exploration stage company, is in the business of acquiring, exploring and developing mining and oil and gas properties. It has interests in properties at the exploration stage located in Quebec, Canada, and has not yet determined whether they contain mineral deposits that are economically recoverable.

Until it is determined that properties contain mineral reserves or resources that can be economically mined, they are classified as exploration properties. The recoverability of mining and oil and gas properties and deferred exploration expenses is dependent on the discovery of economically recoverable reserves and resources; securing and maintaining title and beneficial interest in the properties; the ability to obtain necessary financing to continue the exploration, evaluation and development of its properties; and obtaining certain government approvals and future profitable production or proceeds from the disposal of properties. Changes in future conditions could require material impairment of the carrying value of the mining and oil and gas properties and deferred exploration expenses. Although the Corporation has taken steps to verify title to its mining and oil and gas properties on which it is currently conducting exploration and in which it is acquiring an interest, in accordance with industry standards for the current stage of exploration of such property, these procedures do not guarantee the Corporation's title. Property title may be subject to unregistered prior agreements and non compliance with regulatory requirements.

As at December 31, 2013, the Corporation had working capital of $2,277,626 (2012 – $3,002,629) including cash and cash equivalents of $1,702,514 (2012 – $2,054,073) and accumulated deficit of $26,062,714 (2012 – $25,318,184), and had incurred a net loss of $744,530 for the year then ended (2012 – $661,365).

Management of the Corporation believes that it has sufficient funds to pay its ongoing general and administrative expenses, to pursue its 2014 budgeted exploration expenditures and to meet its liabilities, obligations and existing commitments for the ensuing 12 months as they fall due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, 12 months from the end of the reporting period. The Corporation's ability to continue future operations beyond December 31, 2014 and fund its exploration expenditures is dependent on management's ability to secure additional financing in the future, which may be completed in a number of ways, including, but not limited to, the issuance of debt or equity instruments. Management will pursue such additional sources of financing when required, and while management has been successful in securing financing in the past, there can be no assurance it will be able to do so in the future or that these sources of funding or initiatives will be available for the Corporation or that they will be available on terms which are acceptable to the Corporation.

The Corporation's financial year ends on December 31. The consolidated financial statements were authorized by the Board of Directors for publication on April 28, 2014.

(expressed in Canadian dollars, except as otherwise stated)

2 Basis of preparation

The consolidated financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Corporation's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 6.

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 Corporation and its subsidiaries. All intercompany transactions, balances, income and expenses, and profits and losses are eliminated on consolidation. Subsidiaries are all entities over which the Corporation has control. The Corporation controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Corporation and are de-consolidated from the date the control ceases.

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.

(expressed in Canadian dollars, except as otherwise stated)

Financial instruments

Financial assets and financial liabilities are recognized when the Corporation 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 Corporation has transferred substantially all risks and rewards of ownership.

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement 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.

All financial instruments are required to be measured at fair value on initial recognition. The fair value is based on quoted market prices, unless the financial instruments are not traded in an active market. In this case, the fair value is determined by using valuation techniques like the Black-Scholes option pricing model or other valuation techniques.

Measurement in subsequent periods depends on the classification of the financial instrument. At initial recognition, the Corporation classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

- *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 statement of loss. Gains and losses arising from changes in fair value are presented in the consolidated statement 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.

- *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. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income 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.

(expressed in Canadian dollars, except as otherwise stated)

- *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. Loans and receivables are included in current assets, except for instruments with maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets.

- *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 Corporation's financial instruments are classified as follows:

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

Impairment of financial assets

At each reporting date, the Corporation 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 Corporation recognizes an impairment loss, as follows:

- *Financial assets carried at amortized cost*: The impairment 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.

- *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 statement of loss. This amount represents loss in accumulated other comprehensive income that is reclassified to net loss.

(expressed in Canadian dollars, except as otherwise stated)

Impairment losses on financial assets carried at amortized cost 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 investments 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 Corporation 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 statement 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 Corporation 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 statement 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.

(expressed in Canadian dollars, except as otherwise stated)

From time to time, the Corporation 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 statement 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 Corporation 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 of disposal and value in use.

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.

(expressed in Canadian dollars, except as otherwise stated)

Government assistance

The Corporation is entitled to refundable tax credits 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 reported on the consolidated statement of financial position.

Share-based compensation

The fair value of share options granted to employees are recognized as an expense, or capitalized to deferred exploration expenses, 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 Corporation.

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 on 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, proportionate to the fair value of the shares and warrants within the unit, using the Black-Scholes options pricing model to determine the fair value of warrants issued.

Flow-through shares

The Corporation 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 Corporation 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.

(expressed in Canadian dollars, except as otherwise stated)

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 or in equity, in which case it is recognized in other comprehensive income 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 balance sheet 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.

Loss per share

The Corporation presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Corporation 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 Corporation 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, brokers' options and stock options.

(expressed in Canadian dollars, except as otherwise stated)

Segment disclosures

The Corporation currently operates in a single segment: the acquisition, exploration and development of mining and oil and gas properties. All of the Corporation'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 Corporation operates (the functional currency). The functional currency of each consolidated entity is the Canadian dollar.

4 Changes in accounting policies

The Corporation has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

IAS 1, Presentation of Financial Statements

The Corporation has adopted the amendments to IAS 1 effective January 1, 2013. These amendments required the Corporation to group other comprehensive income items based on whether or not they may be reclassified to net earnings or loss in the future. The Corporation has reclassified comprehensive loss items of the comparative period. These changes did not result in any adjustments to other comprehensive income or comprehensive loss, as other comprehensive income is composed solely of items that may be reclassified subsequently to net earnings or loss.

IFRS 10, Consolidated Financial Statements

IFRS 10 replaces the guidance on control and consolidation in IAS 27, Consolidated and Separate Financial Statements, and SIC 12, Consolidation – Special Purpose Entities. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27. The Corporation assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of its subsidiaries and investees.

(expressed in Canadian dollars, except as otherwise stated)

IFRS 11, Joint Arrangements

IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and requires joint arrangements to be classified as either joint operations or joint ventures, depending on the contractual rights and obligations of each investor that jointly controls the arrangement. For joint operations, a company recognizes its share of assets, liabilities, revenues and expenses of the joint operation. An investment in a joint venture is accounted for using the equity method as set out in IAS 28, Investments in Associates and Joint Ventures (amended in 2011). The adoption of IFRS 11 did not affect the Corporation.

IFRS 12, Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities. The standard includes disclosure requirements for entities covered under IFRS 10 and IFRS 11. The adoption of IFRS 12 did not result in significant incremental disclosures in the consolidated financial statements.

IFRS 13, Fair Value Measurement

IFRS 13 provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Corporation adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Corporation to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

The Corporation's finance department is responsible for performing the valuation of financial instruments at each reporting date, including Level 3 fair values. The Corporation's policy is to recognize transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. The Corporation added additional disclosures on fair value in its consolidated financial statements.

5 New accounting standards not yet adopted

The Corporation has not yet adopted certain standards, interpretations to existing standards and amendments which have been issued but have an effective date of later than January 1, 2013. Many of these updates are not relevant to the Corporation and are therefore not discussed herein.

(expressed in Canadian dollars, except as otherwise stated)

IFRS 9, Financial Instruments

In November 2009 and October 2010, the International Accounting Standards Board (IASB) issued the first phase of IFRS 9. In November 2013, the IASB issued a new general hedge accounting standard which forms part of IFRS 9. The new standard removes the January 1, 2015 effective date of IFRS 9. The new mandatory effective date will be determined once the classification and measurement and impairment phases of IFRS 9 are finalized.

This standard is part of a wider project to replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 replaces the current multiple classification and measurement models for financial assets and financial liabilities with a single model that has only two classification categories: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset or financial liability. It also introduces additional changes relating to financial liabilities and aligns hedge accounting more closely with risk management. The mandatory effective date is not yet determined; however, early adoption of the new standard is still permitted. The Corporation does not intend to early adopt IFRS 9 in its financial statements for the annual period beginning January 1, 2014. The extent of the impact of adoption of IFRS 9 has not yet been determined.

IFRIC 21, Levies

In May 2013, the IASB issued IFRIC 21, which is effective for annual periods beginning on or after January 1, 2014 and is to be applied retrospectively. IFRIC 21 provides guidance on accounting for levies in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation and confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs. The Corporation will adopt IFRIC 21 in its consolidated financial statements for the annual period beginning January 1, 2014. The extent of the impact of adoption of IFRIC 21 has not yet been determined.

6 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. Actual results may differ from the amounts included in the consolidated financial statements. The following discusses the most significant accounting judgments and estimates that the Corporation has made in the preparation of the consolidated financial statements.

(expressed in Canadian dollars, except as otherwise stated)

Critical judgments in applying accounting estimates:

a) Impairment of non-financial assets

The Corporation'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 Corporation's control. This evaluation involves a comparison of the estimated recoverable amounts of non-financial assets to their carrying values. The Corporation'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 Corporation's financial position and results 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, an expiry of the right to explore in the specific area during the year or will expire in the near future, and is not expected to be renewed; substantive E&E expenditures in a specific area is neither budgeted nor planned; exploration for and evaluation of mineral or oil and gas resources in a specific area have not led to the discovery of commercially viable quantities of mineral or oil and gas resources, and the entity has decided to discontinue such activities in the specific area; or sufficient data exists to indicate that, although development in a specific area is likely to proceed, the carrying amount of the assets is unlikely to be recovered in full from successful development or by sale, significant negative industry or economic trends and significant drop in commodity prices.

No properties or deferred exploration expenses were impaired in 2013 or in 2012.

b) Impairment of financial assets

The Corporation 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 Corporation 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.

Critical judgments in applying accounting policies:

a) Cash and cash equivalents

The Corporation 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 Corporation 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.

(expressed in Canadian dollars, except as otherwise stated)

b) Recognition of deferred income tax assets and measurement of income tax expense

Periodically, the Corporation evaluates the likelihood of whether some portion of the deferred tax assets will not be realized. Once the evaluation is completed, if the Corporation believes that it is probable that some portion of the deferred tax assets will fail to be realized, it records only the remaining portion for which it is probable that there will be available future taxable profit against which the temporary differences can be utilized. Assessing the recoverability of deferred income tax assets requires management to make significant judgment. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Corporation to realize the net deferred tax assets recorded at the consolidated statement of financial position date could be impacted. Significant judgment is required in determining the income tax expense (recovery) as there are transactions and calculations for which the ultimate tax determination is uncertain.

c) Going concern

The assessment of the Corporation's ability to execute its strategy by funding future working capital requirements and E&E activities 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.

7 Cash and cash equivalents

	2013 $	2012 $
Cash on hand and bank balances	20,571	106,389
Money market funds	1,681,943	1,947,684
	1,702,514	2,054,073

8 Marketable securities

	2013		2012	
	Maturity	Amount $	Maturity	Amount $
Corporate bonds	1 year	508,175	2 years	515,165

a) Interest rate

As at December 31, 2013, the bonds bear interest at a fixed rate of 3.27% (2012 – at fixed rate of 3.27%).

(expressed in Canadian dollars, except as otherwise stated)

b) Fair value

For the year ended December 31, 2013, the Corporation recognized in net loss for the year an unrealized loss of $6,990 (2012 – unrealized gain of $9,190) and no realized loss (2012 – $19,575) on marketable securities.

9 Investment

Investment comprises:

	2013 $	2012 $
Common shares of an oil and gas exploration public company	100,000	420,000

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

	2013 $	2012 $
Available-for-sale investment classified to other comprehensive income	10,000	(340,000)

The fair value of the investment in common shares is based on the quoted market price of those shares on a recognized stock exchange at the end of each reporting period.

The unrealized loss on available-for-sale investments is recognized in other comprehensive income. In 2012, an impairment of $368,151 on the available-for-sale investment was reclassified from other comprehensive income to the consolidated statement of loss.

Following the impairment loss on the available-for-sale investment recorded in 2012, a subsequent unrealized loss on this investment of $330,000 was noted in 2013. The impairment loss on the available-for-sale investment was recorded directly in the consolidated statement of loss in 2013.

(expressed in Canadian dollars, except as otherwise stated)

10 Accounts receivable and tax credits receivable

	2013 $	2012 $
Accounts receivable		
Sales taxes	30,813	9,068
Receivable from a partner	-	63
Interest income receivable	2,285	2,284
	33,098	11,415
Tax credits receivable		
Refundable tax credits and mining duties	24,979	12,929

Tax credits receivable are classified as current assets.

11 Property, plant and equipment

	Computer equipment $	Office furniture $	Exploration equipment $	Total $
Year ended December 31, 2012				
Opening net book amount	4,629	4,874	4,641	14,144
Depreciation for the year	(1,389)	(975)	(1,392)	(3,756)
Closing net book amount	3,240	3,899	3,249	10,388
As at December 31, 2012				
Cost	13,875	7,608	7,800	29,283
Accumulated depreciation	(10,635)	(3,709)	(4,551)	(18,895)
Net book amount	3,240	3,899	3,249	10,388
Year ended December 31, 2013				
Opening net book amount	3,240	3,899	3,249	10,388
Depreciation for the year	(972)	(780)	(975)	(2,727)
Closing net book amount	2,268	3,119	2,274	7,661
As at December 31, 2013				
Cost	13,875	7,608	7,800	29,283
Accumulated depreciation	(11,607)	(4,489)	(5,526)	(21,622)
Net book amount	2,268	3,119	2,274	7,661

(expressed in Canadian dollars, except as otherwise stated)

12 Mining and oil and gas properties

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

Property	Note	Number of claims/ licences	Undivided interest %	Balance as at December 31, 2012 $	Net acquisitions $	Balance as at December 31, 2013 $
						2013
Lindsay		25	100	982,617	-	982,617
Rimouski	12(a)	2	50	9,989	1,995	11,984
Rimouski North	12(a)	3	50	13,157	2,628	15,785
Trois-Pistoles		8	50	23,635	7,879	31,514
Sheldon		76	100	-	4,070	4,070
				1,029,398	16,572	1,045,970

Property	Note	Number of claims/ licences	Undivided interest %	Balance as at December 31, 2011 $	Net acquisitions $	Balance as at December 31, 2012 $
						2012
Lindsay		25	100	980,485	2,132	982,617
Rimouski	12(a)	2	50	7,994	1,995	9,989
Rimouski North	12(a)	3	50	10,529	2,628	13,157
Trois-Pistoles		8	50	15,757	7,878	23,635
				1,014,765	14,633	1,029,398

a) On October 28, 2008, the Corporation entered into an agreement with Brownstone Energy Inc. (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 Corporation 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, of which the Shawinigan property has since been written off.

(expressed in Canadian dollars, except as otherwise stated)

13 Deferred exploration expenses

						2013
Property	**Note**	**Undivided interest %**	**Balance as at December 31, 2012 $**	**Increase $**	**Refundable tax credits and mining duties $**	**Balance as at December 31, 2013 $**
Lindsay		100	550,528	1,447	(506)	551,469
Rimouski	12(a)	50	43,171	62	(22)	43,211
Rimouski North	12(a)	50	45,496	62	(22)	45,536
Trois-Pistoles		50	2,092	-	-	2,092
Sheldon		100	-	54,961	(27,904)	27,057
			641,287	56,532	(28,454)	669,365

						2012
Property	**Note**	**Undivided interest %**	**Balance as at December 31, 2011 $**	**Increase $**	**Refundable tax credits and mining duties $**	**Balance as at December 31, 2012 $**
Lindsay		100	528,190	34,118	(11,780)	550,528
Rimouski	12(a)	50	42,695	696	(220)	43,171
Rimouski North	12(a)	50	45,062	632	(198)	45,496
Trois-Pistoles		50	2,092	-	-	2,092
			618,039	35,446	(12,198)	641,287

(expressed in Canadian dollars, except as otherwise stated)

14 Share capital and warrants

Share capital

Authorized
Unlimited common shares without par value

Warrants

As at December 31, 2013 and 2012, the outstanding warrants that may be exercised to acquire common shares are detailed as follows:

	2013		2012	
	Number of warrants	Weighted average exercise price $	Number of warrants	Weighted average exercise price $
Warrants – Beginning of year	5,000,000	1.50	5,000,000	1.50
Expired*	(5,000,000)	1.50	-	-
Warrants – End of year	-	-	5,000,000	1.50

* In 2013, 5,000,000 warrants expired unexercised (2012 – no warrants).

No warrants were exercised in 2013 and 2012.

15 Share purchase options

In 1997, the Corporation adopted a stock option plan (the Option Plan), as amended, authorizing the granting of stock options to qualified employees, directors and consultants to purchase a total maximum of 10% of the number of outstanding issued common shares of the Corporation 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 2013, the Corporation granted a total of 525,000 stock options to a director of the Corporation, which are exercisable at $0.10 per share. Options vested at the grant date. These options will expire on the tenth anniversary of their day of issuance. The fair value of options awarded is $0.098 per share for a total share-based compensation expense of $51,450. The market price of the Corporation's share was equal to the exercise price at the grant date determined on the previous day's closing price.

(expressed in Canadian dollars, except as otherwise stated)

In 2012, the Corporation granted a total of 50,000 stock options to a director of the Corporation, which are exercisable at $0.25 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 $0.198 per share for a total share-based compensation expense of $9,900. The market price of the Corporation's share was equal to the exercise price at the grant date determined on the previous day closing price.

	2013		2012	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Outstanding options – Beginning of year	1,020,000	1.06	1,175,000	1.07
Options granted	525,000	0.10	50,000	0.25
Options expired	(545,000)	1.62	(60,000)	1.10
Options forfeited	-	-	(145,000)	0.82
Outstanding options – End of year	1,000,000	0.25	1,020,000	1.06
Exercisable options	1,000,000	0.25	1,020,000	1.06

No stock options were exercised in 2013 and 2012.

Information relating to options outstanding and exercisable granted to directors and officers as at December 31, 2013 is as follows:

Number of options outstanding and exercisable	Weighted average remaining contractual life	Exercise price $
265,000	0.5 years	0.50
160,000	6.5 years	0.35
50,000	8.54 years	0.25
525,000	9.51 years	0.10
1,000,000		

(expressed in Canadian dollars, except as otherwise stated)

The fair value of options at the time of grant in 2013 was estimated at $51,450 ($9,900 at the time of grant in 2012) based on the Black-Scholes option pricing model, using the following weighted average assumptions:

	2013 $	2012 $
Expected life	10 years	10 years
Share price	$0.10	$0.21
Risk-free interest rate	2.41%	1.64%
Expected volatility	143%	121%
Expected dividend yield	Nil	Nil
Expected forfeiture rate	0%	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:

	2013 $	2012 $
Officers or a company held by officers		
Consulting fees	111,980	174,160
Rent	24,000	24,000

As at December 31, 2013, the balance due to related parties amounts to $10,256 (2012 – $13,797). This amount is subject to the same conditions as those of non-related parties.

Compensation of key management

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

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

	2013 $	2012 $
Key management services and directors' fees	85,400	124,780
Share-based compensation expense	51,450	9,900
	136,850	134,680

(expressed in Canadian dollars, except as otherwise stated)

17 Income tax

The major components of income tax expense are as follows:

	2013 $	2012 $
Income tax expense applicable to:		
Deferred income tax expense		
Relating to writedown of a deferred income tax asset	-	-
Total deferred income tax expense	-	-

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

	2013 $	2012 $
Statutory tax rate	26.9%	26.9%
Tax benefit of statutory rate	(200,279)	(177,907)
Tax effect of unrecognized deferred income tax asset	140,312	121,532
Impact of change in federal deferred income tax rate	-	-
Permanent differences	59,491	54,102
Other	476	2,273
Total deferred income tax expense	-	-

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

	As at December 31, 2013 $	As at December 31, 2012 $
Deferred income tax assets		
Non-capital loss carryforward	861,025	769,075
Capital loss	1,476,852	1,476,708
Investments	93,222	48,714
Resource assets	201,600	199,234
Net deferred income tax assets	2,632,699	2,493,731

As at December 31, 2013, the tax base of the E&E assets totalled approximately $2,440,870 (2012 – $2,381,484). The difference between the tax base and the amount capitalized is due mainly to the fact that certain E&E assets were written down.

(expressed in Canadian dollars, except as otherwise stated)

As at December 31, 2013, the Corporation had accumulated non-capital losses for tax purposes of approximately $3,200,835 (2012 – $2,858,017) 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
2032	2012	423,086
2033	2013	352,154
		3,200,835

The Corporation's balance of capital losses amounts to approximately $980,314 and can be carried forward indefinitely to be used against future capital gains.

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

18 Financial risk management objectives and policies, and financial risks

Financial risk management objectives and policies

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

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

(expressed in Canadian dollars, except as otherwise stated)

Liquidity risk

Liquidity risk is the risk that the Corporation will not have sufficient cash resources to meet its financial obligations as they come due. As further mentioned in note 1, the Corporation's liquidity and operating results may be adversely affected if the Corporation'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 Corporation. The Corporation has historically generated cash flows primarily from its financing activities. As at December 31, 2013, the Corporation had cash and cash equivalents amounting to $1,702,514 (2012 – $2,054,073) to settle current liabilities of $96,678 (2012 – $16,487). All of the Corporation's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Corporation 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 Corporation is subject to concentrations of credit risk through cash and cash equivalents, marketable securities, investment and accounts receivable. Accounts receivable consist mainly of goods and services tax due from the federal government and provincial sales tax due from the Quebec government, as well as amounts receivable from a partner (reimbursed in 2013) and interest income receivable from reputable institutions. Based on the credit risk analysis performed by the Corporation, the risk is considered limited. The Corporation reduces its credit risk by maintaining part of its cash and cash equivalents in financial instruments issued 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 a reputable financial institution.

The carrying amount representing the maximum credit exposure of the Corporation by class of financial assets is as follows:

	2013 $	2012 $
Loans and receivables		
Accounts receivable	33,098	11,415

Market risk

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

(expressed in Canadian dollars, except as otherwise stated)

Price risk

The Corporation is exposed to price risk on equity securities because of its investments held in a junior exploration company. When trading its shares, unfavourable market conditions could result in the disposal of the Corporation's listed shares at less than their value as at December 31, 2013. A 10% variation in the closing price on the stock market would result in an estimated ±$10,000 in other comprehensive loss at year-end.

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 Corporation 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 Corporation is therefore exposed to the risk of changes in fair value resulting from interest rate fluctuations. The sensitivity of the Corporation to a 1% fluctuation in the interest rate would not have a significant impact. The Corporation's other financial assets and financial liabilities are not subject to interest rate risk since they are non-interest bearing.

Fair value

Fair value estimates are made at the statement of financial position dates, based on relevant market information and other information about financial instruments.

The Corporation's financial instruments as at December 31, 2013 consist of cash and cash equivalents, marketable securities, available-for-sale investment and accounts payable and accrued liabilities. The fair value of these financial instruments (other than cash and cash equivalents held in money market funds, marketable securities and available-for-sale investment, which are all recorded at fair value) approximates their carrying value due to their short maturity and current market rates.

Fair value hierarchy

Financial instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices on a recognized securities exchange at the statement of financial position dates. The quoted market price used for financial assets held by the Corporation is the last transaction price. Instruments included in Level 1 consist primarily of common shares trading on the TSX.

Financial instruments in Level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques.

These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on the Corporation's specific estimates. If all significant inputs required to measure the fair value of an instrument are observable, the instrument is included in Level 2.

(expressed in Canadian dollars, except as otherwise stated)

If one or more of the significant inputs are not based on observable market data, the instrument is included in Level 3. As at December 31 2013 and 2012, there are no Level 3 financial instruments.

				Financial assets measured at fair value 2013
	Level 1 $	**Level 2 $**	**Level 3 $**	**Total $**
Financial assets at fair value through profit or loss				
Money market funds	1,681,943	-	-	1,681,943
Marketable securities	-	508,175	-	508,175
	1,681,943	508,175	-	2,190,118
Available for sale				
Investment in common shares of public company	100,000	-	-	100,000

				Financial assets measured at fair value 2012
	Level 1 $	**Level 2 $**	**Level 3 $**	**Total $**
Financial assets at fair value through profit or loss				
Money market funds	1,947,684	-	-	1,947,684
Marketable securities	-	515,165	-	515,165
	1,947,684	515,165	-	2,462,849
Available for sale				
Investment in common shares of public company	420,000	-	-	420,000

19 Capital management policies and procedures

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

The Corporation considers equity, which totals $4,000,622 as at December 31, 2013 (December 31, 2012 – $4,683,702), as its capital.

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

(expressed in Canadian dollars, except as otherwise stated)

There were no significant changes in the Corporation's approach to capital management during the year ended December 31, 2013. The Corporation does not have any externally imposed capital requirements or regulatory or contractual requirements to which it is subject, unless the Corporation closes a flow-through private placement, in which case the funds are restricted in use for E&E expenses. Changes in capital are presented in the consolidated statement of changes in equity.

20 Subsequent event

On April 28, 2014, the Corporation entered into an Asset Transfer Agreement with X-Terra Resources Inc. (New X-Terra), a wholly-owned subsidiary of the Corporation, for a proposed spin-out (the Spin-Out) of substantially all of the assets and all of the liabilities of the Corporation to New X-Terra and the distribution of a portion of the shares of New X-Terra to the shareholders of the Corporation. On April 28, 2014, the Corporation also entered into a Share Exchange Agreement with Norvista Resources Corporation and Norvista Capital Corporation for a reverse take-over of the Corporation involving Norvista Capital Corporation (the Reverse Take-Over), following which the name of the Corporation will be changed to Norvista Capital Corporation (New Norvista). After the Spin-Out and Reverse Take-Over, current shareholders of the Corporation will become shareholders of New X-Terra, which will carry on the Corporation's current mining exploration business, as well as shareholders of New Norvista, which will be a natural resources merchant bank.

Completion of the Spin-Out and Reverse Take-Over is subject to a number of conditions, including but not limited to regulatory approval, including that of the TSX Venture Exchange, shareholder approval and financing.