



**TERRAX MINERALS INC.**

**FINANCIAL STATEMENTS**

**JANUARY 31, 2011**

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of TerraX Minerals Inc.

We have audited the accompanying financial statements of TerraX Minerals Inc., which comprise the balance sheets as at January 31, 2011 and 2010, and the statements of loss, comprehensive loss and deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of TerraX Minerals Inc. as at January 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

### Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which describe certain conditions that give rise to doubt about the entity's ability to continue as a going concern. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

*"DMCL"*

**DALE MATHESON CARR-HILTON LABONTE LLP**  
**CHARTERED ACCOUNTANTS**

Vancouver, Canada  
May 27, 2011

**TERRAX MINERALS INC.**  
**BALANCE SHEETS**  
**JANUARY 31**

	2011	2010
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 2,189,097	\$ 465,586
Receivables	39,217	3,156
Prepays and deposits	55,034	33,000
	<u>2,283,348</u>	<u>501,742</u>
Mineral properties and deferred exploration costs (Note 3)	1,154,252	213,458
	<u>\$ 3,437,600</u>	<u>\$ 715,200</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

**Current liabilities**

Accounts payable and accrued liabilities (Note 4)	\$ 84,058	\$ 19,044
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**Shareholders' equity**

Share capital (Note 5)	4,656,953	1,708,851
Contributed surplus (Note 5)	495,890	276,507
Deficit	(1,799,301)	(1,289,202)
	<u>3,353,542</u>	<u>696,156</u>
	<u>\$ 3,437,600</u>	<u>\$ 715,200</u>

Nature and continuance of operations (Note 1)

Commitments (Notes 3 and 9)

**Approved on behalf of the Board:**

<u>"STUART ROGERS"</u> Stuart Rogers	Director	<u>"PAUL REYNOLDS"</u> Paul Reynolds	Director
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The accompanying notes are an integral part of these financial statements.

**TERRAX MINERALS INC.**  
**STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT**  
**YEAR ENDED JANUARY 31**

	2011	2010
<b>EXPENSES</b>		
Consulting (Note 4)	\$ 18,825	\$ 5,363
Office, rent and miscellaneous (Note 4)	23,152	19,113
Professional fees	28,300	21,426
Stock-based compensation (Note 6)	155,750	147,160
Transfer agent, filing fees and shareholder communications	272,990	59,510
Travel	17,109	6,751
	<hr/>	<hr/>
<b>LOSS BEFORE OTHER ITEMS</b>	(516,126)	(259,323)
<b>OTHER ITEMS</b>		
Interest income	6,027	1,972
Write-off of mineral property and deferred exploration costs (Note 3)	-	(805,923)
	<hr/>	<hr/>
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	(510,099)	(1,063,274)
<b>DEFICIT, BEGINNING</b>	<hr/>	<hr/>
	(1,289,202)	(225,928)
<b>DEFICIT, ENDING</b>	<hr/>	<hr/>
	\$ (1,799,301)	\$ (1,289,202)
<b>LOSS PER COMMON SHARE – BASIC AND DILUTED</b>	<hr/>	<hr/>
	\$ (0.03)	\$ (0.10)
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC AND DILUTED</b>	<hr/>	<hr/>
	16,765,243	10,653,027

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

**TERRAX MINERALS INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEAR ENDED JANUARY 31**

	2011	2010
<b>CASH PROVIDED BY (USED IN):</b>		
<b>OPERATING ACTIVITIES</b>		
Net loss	\$ (510,099)	\$ (1,063,274)
Items not involving cash		
Stock-based compensation	155,750	147,160
Write-off of mineral property and deferred exploration costs	-	805,923
Changes in non-cash working capital items:		
Increase in receivables	(36,061)	(964)
Increase in accounts payable and accrued liabilities	14,731	2,038
Increase in prepaids and deposits	(54,034)	(33,000)
Net cash used in operating activities	(429,713)	(142,117)
<b>INVESTING ACTIVITIES</b>		
Mineral property and deferred exploration costs	(753,961)	(185,005)
Net cash used in investing activities	(753,961)	(185,005)
<b>FINANCING ACTIVITIES</b>		
Issuance of common shares	2,907,185	507,900
Net cash provided by financing activities	2,907,185	507,900
<b>Increase in cash and cash equivalents</b>	<b>1,723,511</b>	<b>180,778</b>
<b>Cash and cash equivalents, beginning</b>	<b>465,586</b>	<b>284,808</b>
<b>Cash and cash equivalents, ending</b>	<b>\$ 2,189,097</b>	<b>\$ 465,586</b>
<b>Cash and cash equivalents consists of:</b>		
Cash	\$ 489,092	\$ 15,586
Term deposits	1,700,005	450,000
	\$ 2,189,097	\$ 465,586

**Supplemental disclosures with respect to cash flows:**

- The Company issued 300,000 (2010 – 200,000) common shares at a value of \$104,550 (2010 - \$31,000) for mineral property option payments (Note 3).
- The Company reallocated \$Nil (2010 - \$19,191) to share capital from contributed surplus for the exercise of agent's warrants (Note 5).
- The Company recorded finder's warrants at a fair value of \$63,633, which have been recorded as share issuance costs (Note 5).
- The Company reallocated \$32,000 (2010 - \$Nil) from prepaids and deposits to mineral properties and deferred exploration costs.
- Included in accounts payable and accrued liabilities is \$50,283 (2010 - \$6,175) in mineral properties and deferred exploration costs.

Cash paid during the year for interest	\$	-	\$	-
Cash paid during the year for income taxes	\$	-	\$	-

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

## **1. NATURE AND CONTINUANCE OF OPERATIONS**

TerraX Minerals Inc. (the “Company”) was incorporated under the Business Corporations Act (British Columbia) on August 1, 2007. The Company trades on the TSX Venture Exchange (“TSX-V”).

The Company is a mineral property exploration company and has not yet determined whether its mineral properties contain economically recoverable reserves. The recoverability of the amounts shown for mineral properties and deferred exploration costs is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete their development and upon future profitable production.

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to raise adequate financing to develop its mineral properties, and to commence profitable operations in the future. To date the Company has not generated any significant revenues and is considered to be in the exploration stage.

Management’s plan includes continuing to pursue additional sources of equity financing to fund its exploration programs. Management expects that the Company will have sufficient capital to fund operations and keep its mineral property in good standing for the upcoming fiscal year. Further discussion of liquidity risk has been disclosed in Notes 7 and 8.

These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of presentation**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and are presented in Canadian dollars.

### **Use of estimates**

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates. Significant areas requiring the use of management estimates relate to the determination of impairment of mineral property interests, going concern assessments, future tax rates used to determine future income taxes, determining the fair value of stock-based payments, asset retirement obligations and financial instruments. Where estimates have been used financial results as determined by actual events could differ from those estimates.

### **Cash and cash equivalents**

Cash and cash equivalents include highly liquid Canadian dollar denominated guaranteed investment certificates which are readily convertible to contracted amounts of cash without penalty and with a maturity date of less than 90 days. Cash equivalents are classified as held-for-trading and are recorded at fair value with realized and unrealized gains and losses reported in net income (loss).

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**Mineral properties**

The Company records its interests in mineral properties and areas of geological interest at cost. All direct and indirect costs relating to the acquisition of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or management has determined there to be an impairment. These costs will be amortized on the basis of units produced in relation to the proven reserves available on the related property following commencement of production. Mineral properties which are sold before that property reaches the production stage will have all revenues from the sale of the property credited against the cost of the property. Properties which have reached the production stage will have a gain or loss calculated based on the portion of that property sold.

The recorded cost of mineral exploration interests is based on cash paid, the value of share considerations and exploration and development costs incurred. The recorded amount may not reflect recoverable value as this will be dependent on the development program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

Management evaluates the carrying value of each mineral interest on a reporting period basis or as changes in events and circumstances warrant, and makes a determination based on exploration activity and results, estimated future cash flows and availability of funding as to whether capitalized costs are impaired. Mineral property interests, where future cash flows are not reasonably determinable, are evaluated for impairment based on management's intentions and determination of the extent to which future exploration programs are warranted and likely to be funded.

Ownership in mineral interests involves certain inherent risks due to the difficulties of determining and obtaining clear title to the claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral interests.

**Deferred exploration costs**

The Company defers all exploration costs relating to mineral properties and areas of geological interest until the properties to which they relate are placed into production, sold, abandoned or management has determined there to be an impairment. These costs will be amortized on the basis of units produced in relation to the estimated reserves available on the related property following commencement of production or written-off to operations in the period related properties are abandoned.

**Values**

The amounts shown for mineral properties and deferred exploration costs represent costs incurred to date, and do not necessarily represent present or future values which are entirely dependent upon the economic recovery from production or from disposal.

**Asset retirement obligations**

The Company follows the Canadian Institute of Chartered Accountants ("CICA") Handbook section 3110, "Asset Retirement Obligations". This standard focuses on the recognition and measurement of liabilities related to obligations associated with the retirement of property, plant and equipment. Under this standard, these obligations are initially measured at fair value and subsequently adjusted for any changes resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. The asset retirement cost is to be capitalized to the related asset and amortized into earnings over time. Mineral property related retirement obligations are capitalized as part of mineral property and deferred exploration and amortized over the estimated useful lives of the corresponding mineral properties.

At January 31, 2011, and 2010 management has determined that there are no material asset retirement obligations to the Company.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**Impairment of long-lived assets**

The Company follows the recommendations of the CICA Handbook section 3063, "Impairment of Long Lived Assets". Section 3063 establishes standards for recognizing, measuring and disclosing impairment of long-lived assets held for use. The Company conducts its impairment test on long-lived assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment is recognized when the carrying amount of an asset to be held and used exceeds the undiscounted future net cash flows expected from its use and disposal. If there is an impairment, the impairment amount is measured as the amount by which the carrying amount of the asset exceeds its fair value, calculated using discounted cash flows when quoted market prices are not available.

**Financial instruments**

The Company adopted the CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement". Section 3855 prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. Under Section 3855, financial instruments must be classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments, including derivatives, are measured at the balance sheet date at fair value except for loans and receivables, held-to-maturity investments, and other financial liabilities which are measured at amortized cost.

The Company's financial instruments consist of cash and cash equivalents, receivables and accounts payable. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency, or credit risks arising from these financial instruments. The Company has made the following classifications for the financial instruments:

- (i) Cash and cash equivalents – held-for-trading; measured at fair value;
- (ii) Receivables – loans and receivables; measured at amortized cost; and
- (iii) Accounts payable – other financial liabilities; recorded at amortized cost.

A net smelter royalty ("NSR") is a form of derivative financial instrument. The fair value of the Company's right to purchase a NSR is not determinable at the current stage of the Company's exploration program. Therefore, no value has been assigned by management.

The Company has determined that it does not have derivatives or embedded derivatives.

The Company does not use any hedging instruments.

The Company adopted CICA Handbook Section 3862, "Financial Instruments – Disclosures" which was amended to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity disclosure. The additional fair value measurement disclosures include classification of financial inputs used in making the measurements, described as follows.

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – Inputs derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company has included the required disclosures in Note 8 to the financial statements.



**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**Future income taxes**

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

**Flow-through shares**

The Company renounces qualifying Canadian exploration expenditures to certain share subscribers who subscribe for flow-through shares in accordance with the Income Tax Act (Canada). Under these provisions the Company is required to incur and renounce qualifying expenditures on a timely basis for the respective flow-through subscriptions and accordingly, it is not entitled to the related tax deductions and tax credits for such expenditures.

The Company follows recommendations by the Emerging Issues Committee ("EIC") of the Canadian Institute of Chartered Accountants ("CICA") relating to the issuance of flow-through shares. EIC 146 requires the recognition of future income tax liabilities relating to the issuance of flow-through shares as a direct reduction in share capital in the period of completion of applicable tax filings renouncing qualifying Canadian exploration expenditures to the share subscribers. The Company will recognize future income tax recoveries by applying available non-capital losses and other deductible temporary differences not previously recognized to offset any future income tax liability resulting from the issuance of flow-through shares. The resulting future income tax recovery is recognized in operating results in the same period.

**Stock-based compensation**

The Company follows the accounting standards issued by the CICA Handbook Section 3870, "Stock-Based Compensation And Other Stock-Based Payments", which requires the fair-value based method for measuring compensation costs. The Company determines the fair value of the stock-based compensation using the Black-Scholes option pricing model.

The fair value of stock options granted to non-employees is re-measured at the earlier of each financial reporting or vesting date and any adjustment is charged or credited to operations upon re-measurement. Any consideration paid on the exercise of stock options is credited to share capital.

**Comprehensive income (loss)**

The Company follows the CICA Handbook Section 1530, "Comprehensive Income". Section 1530 establishes standards for the reporting and presenting of comprehensive income (loss) which is defined as the change in equity from transaction and other events from non-owner sources. Other comprehensive income (loss) refers to items recognized in comprehensive income (loss) that are excluded from net income (loss). At January 31, 2011 and 2010, the Company had no significant items that caused other comprehensive loss to be different than net loss.

**Loss per share**

The Company uses the treasury stock method to determine the dilutive effect of stock options and other dilutive instruments. The treasury stock method assumes that proceeds received from in-the-money stock options are used to repurchase common shares at the prevailing market rate.

Basic loss per share figures have been calculated using the weighted average number of shares outstanding during the respective periods. Diluted loss per share figures are equal to those of basic loss per share for each year since the effects of the share purchase warrants and stock options have been excluded as they are anti-dilutive.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**Mining exploration costs**

In March 2009 the CICA approved EIC 174, "Mining Exploration Costs". The guidance clarified that an enterprise that has initially capitalized exploration costs has an obligation in the current and subsequent accounting periods to test such costs for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The implementation of the recommendations of this new section has not had a material impact on the Company's financial statements.

**Recent accounting pronouncements – Not yet adopted**

***International financial reporting standards***

In 2006, the Canadian Accounting Standards Board ("AcSB") published a strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian generally accepted accounting principles with International Financial Reporting Standards ("IFRS") over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The date is for interim and annual financial statements relating to the Company's fiscal year beginning on or after February 1, 2011. The transition date of February 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended January 31, 2011.

The Company developed a conversion plan consisting of four key stages including; project planning and preliminary assessment, detailed assessment, design and implementation. The project planning and preliminary assessment stage has been completed. The preliminary assessment was completed with the assistance of external advisors and training and outlines the significant differences between Canadian GAAP and IFRS and rates the impact of each of the significant differences on the entity's financial statements, thereby allowing the Company to focus the detailed assessment on the highest priority items.

***Consolidated Financial Statements, Business Combinations and Non-controlling Interests***

In January 2009, the CICA issued Section 1601, "Consolidated Financial Statements", and Section 1602, "Noncontrolling Interests", which together replace the existing Section 1600, "Consolidated Financial Statements", and provide the Canadian equivalent to International Accounting Standard 27, "Consolidated and Separate Financial Statements". The new sections will be applicable to the Company on January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also early adopt Handbook Section 1582, "Business Combinations", and Handbook Section 1602, "Non-controlling Interests". The Company is assessing the impact, if any, of the adoption of these new sections on its financial statements.

Other accounting pronouncements issued by the CICA with future effective dates are either not applicable or are not expected to be significant to the financial statements of the Company.

**3. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS**

Title to mining properties involves certain inherent risks due to the difficulties of determining the validity of certain claims, as well as the potential for problems arising from the frequently ambiguous conveyance history characteristic of many mining properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing.

**TERRAX MINERALS INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JANUARY 31, 2011**

**3. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (cont'd)**

As at January 31, 2011, the Company holds an interest in the following mineral properties:

		Needle	Sunbeam- Pettigrew	Blackfly	Central Canada	Stewart	Total
Balance, January 31, 2009		\$ 797,201	\$ -	\$ -	\$ -	\$ -	\$ 797,201
Acquisition costs		-	67,451	16,250	22,750	-	106,451
Exploration costs							
Assays and drilling		-	12,168	5,482	-	-	17,650
Consulting		8,722	38,363	17,837	-	-	64,922
Field expenses		-	23,207	9,950	-	-	33,157
		8,722	73,738	33,269	-	-	115,729
Write-off of mineral property and deferred exploration costs		(805,923)	-	-	-	-	(805,923)
Balance, January 31, 2010		-	141,189	49,519	22,750	-	213,458
Acquisition costs		-	94,000	41,300	37,700	23,350	196,350
Exploration costs							
Assays and drilling		-	98,694	144,325	2,535	8,491	254,045
Consulting		-	63,446	73,893	6,408	31,377	175,124
Field expenses		-	29,109	42,380	28,307	36,008	135,804
Geophysical		-	137,596	41,875	-	-	179,471
			328,845	302,473	37,250	75,876	744,444
Balance, January 31, 2011		\$ -	\$ 564,034	\$ 393,292	\$ 97,700	\$ 99,266	\$ 1,154,252

**Needle Property, Nunavut**

On August 19, 2007, the Company had entered into a letter of intent and subsequently, on April 24, 2008, a letter agreement to earn a 51% interest in the Needle Lake Property, located in Nunavut. During the year ended January 31, 2010, the Company wrote-down its interest in the Needle Property and wrote-off \$50,000 of mineral property acquisition costs and \$755,923 of deferred exploration costs to operations.

**3. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (cont'd)**

**Sunbeam-Pettigrew Property, Ontario**

On April 16, 2009, the Company entered into an option agreement to acquire a 100% interest in the Sunbeam-Pettigrew Property located in Northwest Ontario. The Company can earn a 100% interest in the Sunbeam-Pettigrew Property for the following consideration:

- \$10,000 upon execution of the option agreement (paid);
- \$40,000 (paid) and the issuance of 100,000 common shares (issued, with a fair value of \$10,000) by May 30, 2009;
- \$40,000 (paid), the issuance of 150,000 common shares (issued, with a fair value of \$54,000) and incurring \$150,000 in exploration work by April 15, 2010 (completed);
- \$50,000 (subsequently paid), the issuance of 150,000 common shares (subsequently issued) and incurring an additional \$150,000 in exploration work by April 15, 2011 (completed); and
- \$70,000, the issuance of 200,000 common shares and incurring an additional \$150,000 in exploration work by April 15, 2012.

The Company has the right, at any time, to purchase 1% of a 2.5% NSR for \$1,000,000, or in increments of \$500,000 per 0.5%. A pre-production royalty of \$20,000 per year is to be in effect, with the first payment to be made on April 15, 2013. This payment is to continue annually until production commences on the Sunbeam-Pettigrew Property and this amount will be deducted from royalties payable by the Company.

During the year ended January 31, 2011, the Company paid \$Nil (2010 - \$7,451) for staking fees. To January 31, 2011, the Company has incurred \$402,583 (2010 - \$73,738) in exploration work on the Sunbeam-Pettigrew Property.

**Blackfly Property, Ontario**

On July 2, 2009 the Company entered into an option agreement to acquire a 100% interest in the Blackfly Property located in Northwest Ontario. The Company can earn a 100% interest in the Blackfly Property for the following consideration:

- \$10,000 (paid) and the issuance of 50,000 common shares (issued, with a fair value of \$6,250) upon TSX-V approval of the option agreement;
- \$20,000 (paid), the issuance of 60,000 common shares (issued, with a fair value of \$21,300) and incurring \$25,600 in exploration work by July 2, 2010 (completed);
- \$30,000 (subsequently paid), the issuance of 70,000 common shares (subsequently issued) and incurring an additional \$25,600 in exploration work by July 2, 2011;
- \$40,000, the issuance of 100,000 common shares and incurring an additional \$51,200 in exploration work by July 2, 2012; and
- incurring an additional \$76,800 in exploration work by July 2, 2013.

The Company has the right, at any time, to purchase 1% of a 2.5% NSR for \$1,000,000, or in increments of \$500,000 per 0.5%. A pre-production royalty of \$10,000 per year is to be in effect, with the first payment to be made on July 2, 2013. This payment is to continue annually until production commences on the Blackfly Property and this amount will be deducted from royalties payable by the Company.

To January 31, 2011, the Company has incurred \$335,742 (2010 - \$33,269) in exploration work on the Blackfly Property.

**3. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (cont'd)**

**Central Canada Property, Ontario**

On December 11, 2009 the Company entered into an option agreement to acquire a 100% interest in the Central Canada Property located in Northwest Ontario. The Company can earn a 100% interest in the Central Canada Property for the following consideration:

- \$8,000 (paid) and the issuance of 50,000 common shares (issued, with a fair value of \$14,750) upon TSX-V approval of the option agreement;
- \$20,000 (paid), the issuance of 60,000 common shares (issued, with a fair value of \$17,700) and incurring \$20,000 in exploration work by December 11, 2010 (completed);
- \$30,000, the issuance of 70,000 common shares and incurring an additional \$20,000 in exploration work by December 11, 2011;
- \$40,000, the issuance of 100,000 common shares and incurring an additional \$40,000 in exploration work by December 11, 2012; and
- Incurring an additional \$60,000 in exploration work by December 11, 2013.

The Company has the right, at any time, to purchase 1% of a 2.5% NSR for \$1,000,000, or in increments of \$500,000 per 0.5%. A pre-production royalty of \$10,000 per year is to be in effect, with the first payment to be made on December 11, 2013. This payment is to continue annually until production commences on the Central Canada Property and this amount will be deducted from royalties payable by the Company.

To January 31, 2011, the Company has incurred \$37,250 (2010 - \$Nil) in exploration work on the Central Canada Property.

**Stewart Property, Newfoundland**

On June 28, 2010 the Company entered into an option agreement to acquire a 100% interest in the Stewart Property located in the Burin Peninsula of Newfoundland. The Company can earn a 100% interest in the Stewart Property for the following consideration:

- \$10,000 (paid) and the issuance of 30,000 common shares (issued, with a fair value of \$11,550) upon TSX-V approval of the option agreement;
- \$20,000 (subsequently paid), the issuance of 40,000 common shares (subsequently issued) and incurring \$75,000 in exploration work by April 13, 2011 (completed);
- \$30,000, the issuance of 50,000 common shares and incurring an additional \$100,000 in exploration work by April 13, 2012;
- \$45,000, the issuance of 75,000 common shares and incurring an additional \$150,000 in exploration work by April 13, 2013; and
- the issuance of 100,000 common shares and incurring an additional \$200,000 in exploration work by April 13, 2014

The vendors will retain a 2% NSR, 1% of which can be purchased by the Company for \$1,000,000.

During the year ended January 31, 2011, the Company paid \$1,800 (2010 - \$Nil) for staking fees. To January 31, 2011, the Company has incurred \$75,876 (2010 - \$Nil) in exploration work on the Stewart Property

**TERRAX MINERALS INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JANUARY 31, 2011**

**4. RELATED PARTY TRANSACTIONS**

During the year ended January 31, 2011, the Company entered into the following transactions with related parties:

- a) Incurred \$18,000 (2010 - \$18,000) to a private company, wholly-owned by a director, for the provision of office rent and administrative services.
- b) Incurred \$192,777 (2010 - \$62,946) to a private company in which two directors are principals for consulting services and expenses of which \$174,677 (2010 - \$60,708) has been capitalized to deferred exploration costs and \$18,100 (2010 - \$2,238) has been recorded as consulting expense.

As at January 31, 2011, \$25,063 (2010 - \$Nil) was due to related parties and recorded in accounts payable and accrued liabilities.

All related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Unless otherwise noted related party amounts are unsecured, bear no interest and have no fixed terms of repayment.

**5. SHARE CAPITAL**

	Number of Shares	Amount	Contributed Surplus
Authorized			
Unlimited number of common shares without par value			
Issued			
Balance as at January 31, 2009	9,105,000	\$1,150,760	\$ 148,538
Shares issued for private placements	3,075,000	440,000	-
Shares issued for mineral property option payments	200,000	31,000	-
Shares issued for exercise of warrants	390,000	105,691	(19,191)
Share issuance costs	-	(18,600)	-
Stock-based compensation	-	-	147,160
Balance as at January 31, 2010	12,770,000	1,708,851	276,507
Shares issued for private placements	10,454,131	3,061,239	-
Shares issued for mineral property option payments	300,000	104,550	-
Shares issued for exercise of warrants	100,000	25,000	-
Share issuance costs	-	(242,687)	63,633
Stock-based compensation	-	-	155,750
Balance as at January 31, 2011	23,624,131	\$ 4,656,953	\$ 495,890

**2010**

On May 28, 2009 the Company issued 100,000 common shares at a fair value of \$10,000 pursuant to a mineral property option agreement for the Sunbeam-Pettigrew Property (Note 3).

On July 2, 2009, the Company completed a non-brokered private placement of 1,750,000 units at a price of \$0.10 per unit for gross proceeds of \$175,000. Each unit consists of one common share and one share purchase warrant exercisable to purchase an additional share at \$0.15 until July 2, 2011. A finder's fee of \$600 was paid with respect to a portion of this placement. The Company has not separately disclosed the fair value of the warrants.

On July 8, 2009, the Company issued 50,000 common shares at a fair value of \$6,250 pursuant to a mineral property option agreement for the Blackfly Property (Note 3).

On October 2, 2009, the Company completed a non-brokered private placement of 1,325,000 units at a price of \$0.20 per unit for gross proceeds of \$265,000. Each unit consists of one common share and one share purchase

**5. SHARE CAPITAL (cont'd)**

**2010 (cont'd)**

warrant exercisable to purchase an additional share at \$0.25 until October 20, 2011. Finder's fees of \$18,000 were paid with respect to this placement. The Company has not separately disclosed the fair value of the warrants.

On January 25, 2010 the Company issued 50,000 shares at a fair value of \$14,750 pursuant to a mineral property option agreement for the Central Canada Property (Note 3).

During the year ended January 31, 2010, the Company issued 390,000 common shares upon the exercise of warrants, for gross proceeds of \$86,500. Of the warrants exercised, 280,000 were Agent's warrants which were allocated a fair value of \$24,673 during the year ended January 31, 2009. Accordingly, the Company reallocated \$19,191 from contributed surplus to share capital.

**2011**

On March 31, 2010, the Company completed a non-brokered private placement of 750,000 units at a price of \$0.20 per unit for gross proceeds of \$150,000. Each unit consists of one common share and one share purchase warrant exercisable to purchase an additional share at \$0.25 until March 31, 2012. The Company has not separately disclosed the fair value of the warrants.

On April 15, 2010 the Company issued 150,000 shares at a fair value of \$54,000 pursuant to a mineral property option agreement for the Sunbeam-Pettigrew Property (Note 3).

On June 2, 2010, the Company completed a non-brokered private placement of 3,631,266 units at a price of \$0.30 per unit for gross proceeds of \$1,089,380. Each unit consists of one common share and one half-warrant, with each full warrant entitling the holder to purchase an additional share at an exercise price of \$0.40 per share until June 2, 2012. The Company has not separately disclosed the fair value of the warrants. Finder's fees in cash totaling \$73,490 were paid with respect to this placement, along with 227,635 finders warrants exercisable at \$0.40 until June 2, 2012 which were allocated a fair value of \$63,633.

On June 28, 2010 the Company issued 30,000 shares at a fair value of \$11,550 pursuant to a mineral property option agreement for the Stewart Gold-Copper Property (Note 3).

On July 2, 2010 the Company issued 60,000 shares at a fair value of \$21,300 pursuant to a mineral property option agreement for the Blackfly Property (Note 3).

On December 9, 2010 the Company issued 60,000 shares at a fair value of \$17,700 pursuant to a mineral property option agreement for the Central Canada Property (Note 3).

On December 9, 2010, the Company completed a non-brokered private placement of 4,722,865 flow-through units at a price of \$0.30 per unit for gross proceeds of \$1,416,860. Each unit consists of one common share and one half-warrant, with each full warrant entitling the holder to purchase an additional non-flow-through share at an exercise price of \$0.40 per share until December 9, 2012. The Company has not separately disclosed the fair value of the warrants. Finder's fees in cash totaling \$77,214 were paid with respect to this placement.

On January 27, 2011, the Company completed a non-brokered private placement of 1,350,000 shares at a price of \$0.30 per share for gross proceeds of \$405,000. Finder's fees in cash of \$28,350 were paid with respect to this placement.

During the year ended January 31, 2011, the Company issued 100,000 common shares upon the exercise of warrants, for gross proceeds of \$25,000.

**Escrow shares**

As at January 31, 2011, there were 345,000 (2010 – 1,035,000) common shares being held in escrow which are subject to release under the policies of the TSX-V.

## **6. STOCK OPTIONS AND WARRANTS**

### **Stock options**

The Board of Directors of the Company has adopted a stock option plan (the "Stock Option Plan") for the Company. The Stock Option Plan permits the Company to grant to directors, officers and consultants of the Company, non-transferable options ("Options") to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares and be exercisable for a period of up to five years from the date of grant. The number of common shares reserved for issuance to any individual director or officer will not exceed 5% of the issued and outstanding common shares and the number of common shares reserved for issuance to any one consultant or individual conducting investor relations activities will not exceed 2% of the issued and outstanding common shares. Options may be exercised within 90 days following cessation of the optionee's position with the Company, subject to the expiry date of each option, provided that if the cessation of office, directorship, or consulting arrangement was by reason of death, the option may be exercised with a maximum period of one year after such death, subject to the expiry date of such option.

### **2010**

On September 15, 2009, the Company granted 220,000 stock options to a consultant at an exercise price of \$0.20 per share for a 2 year period. The fair value of the stock options granted were estimated to be \$35,931 using the Black-Scholes option pricing model and are being recorded as stock-based compensation over the stock options 1 year vesting period. At January 31, 2010, the Company had recorded \$14,972 in stock-based compensation expense relating to the vested stock options. The weighted average grant date fair value of these options was \$0.15.

On October 2, 2009, the Company granted 355,000 stock options to directors, officers and consultant at an exercise price of \$0.26 per share for a 2 year period. The fair value of the stock options granted were estimated to be \$74,596 using the Black-Scholes option pricing model and were recorded as stock-based compensation. The weighted average grant date fair value of these options was \$0.22.

On January 27, 2010, the Company granted 300,000 stock options to a consultant at an exercise price of \$0.25 per share for a 2 year period. The fair value of the stock options granted were estimated to be \$57,592 using the Black-Scholes option pricing model and recorded as stock-based compensation. The weighted average grant date fair value of these options was \$0.20.

### **2011**

On March 31, 2010, the Company granted 400,000 stock options to a consultant at an exercise price of \$0.30 per share for a 2 year period. The fair value of the stock options granted were estimated using the Black-Scholes option pricing model and are being recorded as stock-based compensation over the stock options 1 year vesting period. At January 31, 2011, the Company had recorded \$62,242 in stock-based compensation expense relating to the vested stock options. The weighted average grant date fair value of these options was \$0.20.

On May 10, 2010, the Company granted 100,000 stock options to consultants at an exercise price of \$0.32 per share for a 2 year period. The fair value of the stock options granted were estimated to be \$22,502 using the Black-Scholes option pricing model and recorded as stock-based compensation. The weighted average grant date fair value of these options was \$0.21.

On August 31, 2010, the Company granted 100,000 stock options to consultants at an exercise price of \$0.25 per share for a 2 year period. The fair value of the stock options granted were estimated to be \$16,523 using the Black-Scholes option pricing model and recorded as stock-based compensation. The weighted average grant date fair value of these options was \$0.17.

On January 31, 2011, the Company granted 170,000 stock options to consultants at an exercise price of \$0.30 per share for a 2 year period. The fair value of the stock options granted were estimated to be \$33,524 using the Black-Scholes option pricing model and recorded as stock-based compensation. The weighted average grant date fair value of these options was \$0.19.



**6. STOCK OPTIONS AND WARRANTS**

**Stock options (cont'd)**

**2011 (cont'd)**

During the year ended January 31, 2011, the Company recorded a further \$20,959 in stock-based compensation for vested stock options previously issued on September 15, 2009. The weighted average grant date fair value of these options was \$0.15.

The following assumptions were used for the Black-Scholes option pricing model's valuation of stock options and agents' warrants granted:

	2011	2010
Risk-free interest rate	1.20-2.01%	1.25%
Expected life	2 years	2 years
Annualized volatility	133 – 149%	161%
Dividend yield	0%	0%

The following table summarizes information about stock option transactions:

	Outstanding options	Weighted average exercise price	Weighted average remaining contractual life
Balance, January 31, 2009	750,000	\$ 0.25	4.40 years
Options granted	875,000	0.24	-
Balance, January 31, 2010	1,625,000	0.25	2.50 years
Options granted	770,000	0.30	-
Balance, January 31, 2011	2,395,000	\$ 0.26	1.49 years

The following incentive stock options were outstanding and exercisable at January 31, 2011:

Number of options outstanding	Number of options exercisable	Exercise Price	Expiry Date
220,000	220,000	\$0.20	September 15, 2011
355,000	355,000	0.26	October 2, 2011
300,000	300,000	0.25	January 27, 2012
400,000	300,000	0.30	March 31, 2012
100,000	100,000	0.32	May 10, 2012
100,000	100,000	0.25	August 31, 2012
170,000	170,000	0.30	January 31, 2013
750,000	750,000	0.25	June 27, 2013
2,395,000	2,295,000		

**6. STOCK OPTIONS AND WARRANTS (cont'd)**

**Warrants**

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Life Remaining (in years)
Balance as at January 31, 2009	2,237,500	\$ 0.17	1.55
Issued	3,075,000	0.19	-
Exercised	(390,000)	0.22	-
Expired	(1,947,500)	0.15	-
Balance as at January 31, 2010	2,975,000	0.19	0.09
Issued	5,154,699	0.31	-
Exercised	(100,000)	0.25	-
Balance as at January 31, 2011	8,029,699	\$ 0.31	1.19

The following warrants were outstanding and exercisable at January 31, 2011:

Number	Exercise Price	Expiry Date
1,650,000	\$ 0.15	July 2, 2011
1,225,000	0.25	October 20, 2011
750,000	0.25	March 31, 2012
2,043,266	0.40	June 2, 2012
2,361,433	0.40	December 9, 2012
8,029,699		

**7. CAPITAL MANAGEMENT**

The capital of the Company consists of share and working capital. The Company's objectives when managing capital are to: (i) preserve capital, (ii) obtain the best available net return, and (iii) maintain liquidity to carry out its exploration programs.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of its cash and cash equivalents.

The Company's policy is to invest its excess cash and cash equivalents in highly liquid, fully guaranteed, bank-sponsored instruments.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the years ended January 31, 2011 and 2010. The Company is not subject to externally imposed capital restrictions.

**8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The Company's financial instruments include cash and cash equivalents, receivables, and accounts payable. The carrying value of these financial instruments approximates their fair value and are measured based on Level 1 input of the fair value hierarchy.

**Industry risk management**

The Company is engaged primarily in mineral exploration and manages related industry risk issues directly. The Company may be at risk for environmental issues and fluctuations in commodity pricing. Management is not aware of and does not anticipate any significant environmental remediation costs or liabilities in respect of its current operations.

**Financial risk management**

The Company is exposed in varying degrees to a variety of financial instrument related risks.

***Credit risk***

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its bank accounts and term deposits, whose balances at January 31, 2011 were \$489,092 and \$1,700,005 respectively. The bank account and the term deposits are each held with two major Canadian financial institutions. As both of the Company's cash and cash equivalents are held by two Canadian financial institutions, the concentration of credit risk with these financial institutions is minimal. This risk is managed by using major financial institutions that are high credit quality financial institutions as determined by rating agencies. The Company's secondary exposure to risk is on its receivables. This risk is minimal as receivables consist primarily of refundable government sales taxes.

***Currency risk***

The Company operates in Canada and is therefore not exposed to foreign exchange risk arising from transactions denominated in a foreign currency.

***Interest rate risk***

The Company is exposed to interest rate risk as bank accounts and term deposits earn interest income at variable rates. The fair value of its portfolio is relatively unaffected by changes in short-term interest rates.

***Liquidity and funding risk***

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash. As at January 31, 2011, the Company was holding cash and cash equivalents of \$2,189,097. Funding risk is the risk that market conditions will impact the Company's ability to raise capital through equity markets under acceptable terms and conditions. Under current market conditions, both liquidity and funding risk have been assessed as moderate.

**TERRAX MINERALS INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JANUARY 31, 2011**

**9. FUTURE INCOME TAXES**

The actual income tax provisions differ from the expected amounts as calculated by applying the Canadian combined federal and provincial corporate income tax rates to the Company's loss before income taxes. The components of these differences are as follows:

	2011	2010
Loss for the year	\$ (510,099)	\$ (1,063,274)
Statutory tax rate	28.33%	30.25%
Expected income tax recovery	\$ (144,511)	\$ (321,640)
Non-deductible items	44,124	(123)
Other	(60,672)	(4,650)
Impact of tax rate change	92,392	(18,839)
Change in valuation allowance	68,667	345,252
Future income tax recovery	\$ -	\$ -

The significant components of the Company's future income tax assets are as follows:

	2011	2010
Mineral properties	\$ 201,481	\$ 282,073
Non-capital losses available for future periods	181,143	71,213
Share issuance costs	66,759	27,430
	449,383	380,716
Valuation allowance	(449,383)	(380,716)
Net future tax assets	\$ -	\$ -

The Company has non-capital losses for income tax purposes which may be carried forward to reduce taxable income in future years. If not utilized, the non-capital losses, in the amount of approximately \$724,000 will expire commencing in 2028. A full valuation has been recorded due to the uncertainty of achieving sufficient future income for tax purposes such that the assets will be realized.

During the year ended January 31, 2011, the Company issued 4,722,865 flow-through units at a price of \$0.30 per share for proceeds of \$1,416,860 pursuant to a non-brokered private placement (Note 5). The flow-through subscription agreements require the Company to renounce certain tax deductions for Canadian exploration expenditures incurred on the Company's mineral properties to the flow-through participants. To January 31, 2011, the Company has not renounced any deductions. Concurrent with the future renunciation, the Company will realize a future tax benefit equal to the future tax liability from the utilization of loss carryforwards. The realized tax benefit will be recorded as a future income tax recovery during of year of renunciation, in accordance with CICA emerging issue pronouncement EIC-146. Subsequent to January 31, 2011, the Company renounced the entire tax deductions to the flow-through participants and filed the applicable tax documents.

## **TERRAX MINERALS INC.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS For the year ended January 31, 2011**

The following discussion and analysis should be read in conjunction with the Interim Financial Statements and related notes for the year ended January 31, 2011. All dollar amounts are stated in Canadian funds. This discussion is based on information available as at May 30, 2011.

The Company was incorporated on August 1, 2007 pursuant to the provisions of the *Business Corporations Act* (British Columbia) under the name of TerraX Resource Corp. On March 31, 2008, the Corporation amended its notice of articles to change its name to TerraX Minerals Inc. The Company has no subsidiaries.

#### **OVERVIEW**

The principal business of the Company is the acquisition and exploration of mineral exploration properties in underexplored areas of Canada and it is now one of the major landholders of prospective ground in the burgeoning Marmion Batholith gold district near Atikokan, Ontario. The Marmion Batholith is host to Osisko Mining Corporation's (TSX: OSK) Hammond Reef gold deposit, which contains a National Instrument 43-101 compliant resource of 259.4 Mt @ 0.80 g/t Au (approximately 6.7 Moz Au). The Brett Resources technical report on the Hammond Reef property is available at [www.sedar.com](http://www.sedar.com).

In May 2009 the Company completed its due diligence on the Sunbeam-Pettigrew gold property in Northwest Ontario and entered into an option agreement with the vendors for a 100% interest in the property, subject to a 2.5% NSR. The Sunbeam-Pettigrew property consists of 36 claims totalling 425 claim units (~67.27 km<sup>2</sup>) and occurs 25 km northeast of the town of Atikokan, which is in turn 180 km west of Thunder Bay. The property is 15 km from the Hammond Reef gold deposit.

In July 2009 TerraX entered into an option to acquire a 100% interest in the Blackfly gold property in northwest Ontario. The property consists of five claims totalling 64 claim units (~10.1 km<sup>2</sup>) located 22 km west of TerraX's Sunbeam-Pettigrew property. The geology and known mineralization on the Blackfly property are similar to the Hammond Reef deposit and the Blackfly property appears to be along strike from Hammond Reef.

In the fall of 2009 the Company began exploration at the Sunbeam-Pettigrew and Blackfly gold properties. In December 2009 TerraX acquired an option on a third property in the area, the Central Canada property and conducted initial exploration on that property as well. Induced polarization and magnetic geophysical surveys were conducted on all three properties in February and March of 2010 and core drilling was completed at Blackfly and Sunbeam-Pettigrew in June of 2010. Further drilling was completed at Blackfly in December of 2010.

In June 2010, TerraX announced an option to acquire a 100% interest in the Stewart Gold-Copper Property in the Burin Peninsula of Newfoundland, subject to acceptance for filing by the TSX Venture Exchange. The Stewart property consisted of two mineral exploration licenses, totaling 173 claims (~43.25 km<sup>2</sup>), located 30 km north-northeast of the town of Marystown, which is in turn approximately 300 km by road southwest of St. John's. The Stewart property is considered prospective for a large tonnage, low grade gold-copper deposit. The property was subsequently increased in size to 242 claims totalling 60.5 km<sup>2</sup> to cover strike extensions of the prospective zones.

#### **Sunbeam-Pettigrew Property, Ontario**

On April 15, 2009, TerraX entered into an option to acquire a 100% interest in the Sunbeam-Pettigrew gold property in northwest Ontario. The property initially consisted of 27 claims totalling 350 claim units (~55 km<sup>2</sup>), but was later expanded to thirty-six claims totalling 425 claim units (~67.27 km<sup>2</sup>) located 25 km northeast of the town of Atikokan, 180 km west of Thunder Bay and 15 km from Osisko's Hammond Reef deposit. The geology and known mineralization on the Sunbeam-Pettigrew property are similar to the Hammond Reef deposit where Brett Resources had reported wide zones of mineralization, such as 154.5 m @ 1.21 g/t Au.

TerraX can earn a 100% interest in the Sunbeam-Pettigrew property over a three year period by making option payments totalling \$210,000 (of which \$140,000 has now been paid), issuing 600,000 shares (of which 400,000 shares have been issued), and funding \$450,000 of exploration and development work. The vendors will retain a 2.5% NSR, 1% of which can be purchased by TerraX for \$1,000,000. An annual pre-production royalty of \$20,000 will also be in effect,

commencing on April 15, 2013.

The property occurs in the Archean Marmion Batholith, which contains a number of phases, varying from tonalite to quartz diorite. Gold mineralization is associated with northeast-trending lineaments traceable for up to 80 km within and along the margin of the batholith. The lineaments are thought to represent faults or shear zones. Mineralization occurs in and adjacent to quartz vein systems within the shear zones, and is associated with pyrite and alteration consisting of sericitization, saussuritization, carbonatization and chloritization. The Hammond Reef deposit occurs on the western edge of the Marmion Batholith.

The Sunbeam-Pettigrew property occurs in the central part of the batholith, 15 km from the Hammond Reef deposit. The property contains two northeast-trending intermittently mineralized zones: the so-called Sunbeam-Atiko Shear Zone and the Pettigrew-Jack Lake Shear Zone. Both shear zones contain significant gold occurrences, including past producers, over approximately 15 km of strike length. Historic gold values from these showings reportedly range from less than one gram per tonne to 898 grams per tonne (sample collected by Ontario Geological Survey). The majority of the previous work on the property was around 1900; exploration activity since then has been highly intermittent, and no work has been completed since 1990. The presence of regional shear zones as controls on mineralization does not appear to have been recognized during previous exploration, and all previous work was concentrated on exposed quartz veins. Exploration for a large low grade deposit similar to Hammond Reef has not been undertaken. Although the over-riding target for TerraX is a large, low grade gold deposit, the grade reported from some of the showings on the property suggests that a smaller, higher grade deposit might also be present.

The due diligence period in the option agreement allowed TerraX to carry out site investigations in the area of old mine workings (circa 1900) and known Au showings to confirm that the property has the geological attributes for a Hammond Reef type mineralization model. During prospecting and sample collection, emphasis was placed on finding Hammond Reef style mineralization in and adjacent to quartz vein systems within shear zones.

TerraX initially collected 53 samples from seven locations along the 15 km strike length of the mineralized structures on the property (four on the Sunbeam-Atiko, and three on the Pettigrew-Jack Lake). These samples displayed weak to intense alteration and shearing, and minor to 5% pyrite mineralization. These areas were consistent with the known visual mineralization associated with the Hammond Reef deposit, and the samples taken were expected to be representative of the large, low grade gold target potential on the property.

Of the 53 samples taken, 36 analyses contained measurable Au, and 24 of these were significantly anomalous (>100 ppb Au) and collectively averaged 1.0 g/t Au, with values ranging up to 3.83 g/t Au. In addition a hand sample (not assayed) collected on the property near one of the historical workings contained visible coarse-grained Au which confirmed historical reports of visible Au found on the property. These results are consistent with expected Au grade distribution in a Hammond Reef style system.

Of particular interest, seven samples taken by TerraX at the Roy Showing on the Sunbeam-Atiko structure, over an area of 60 by 40 m, averaged 1.34 g/t Au. Historically (1898-1904) this area had mineralization exposed in underground workings, pits and trenches for 180 m along the strike of the main vein.

At the Road Showing on the Sunbeam-Atiko structure, two samples were collected grading 1.48 g/t Au in a quartz vein and 2.12 g/t Au in altered granite. This area had a drill intersection reported by Nahanni Mines Limited in 1982 of **1.8 m @ 15.8 g/t Au** within a zone of **8.5 m @ 4.8 g/t Au**.

On the Pettigrew showing of the Pettigrew-Jack Lake structure, six TerraX samples over a 30 by 50 m area averaged 0.90 g/t Au. This is comparable with previous work in the Pettigrew area, including 1983 drilling by Canadian Nickel Company Ltd with reported intersections of 1.81 g/t Au over 18.5 m in borehole 57751 and 0.41 g/t Au over 27.56 m in borehole 57766. In 1987 rehabilitation of the historical underground workings (1898-1900) by Canadian Nickel resulted in wall chip assays of 0.70 g/t Au over 21 m across the strike of the mineralized zone, and an average grade from seven bulk samples of 1.33 g/t Au. All of these results support the potential for a Hammond Reef style deposit on the property.

The discovery of the Rubble showing (up to 48.6 g/t Au grab sample) during staking in 2008 attests to the strong possibility of finding additional mineralization at surface on the property. Results from a government-sponsored airborne magnetic survey, justified in part by the results of Brett Resources' exploration, were released on July 7, 2009. This data helped TerraX develop additional targets on the property for exploration conducted in September 2009, as described more fully below.

On September 8, 2009 TerraX began field exploration on the Sunbeam-Pettigrew and Blackfly properties. Prior to

commencing fieldwork, TerraX received the recently released government airborne magnetic survey. The survey is part of the Ontario Geological Survey's Atikokan Mineral Development Initiative, and is specifically designed to cover the promising Marmion Batholith that contains the Hammond Reef deposit. The geophysical signatures of the Hammond Reef deposit and of mineralization within the northeast-trending Sunbeam-Atiko and Pettigrew-Jack Lake shear zones on the Sunbeam-Pettigrew property were used to produce a template of the desired geophysical response. From this, more than 20 new geophysical targets were identified on the Sunbeam-Pettigrew property and five on the nearby Blackfly property. Targets are defined by intersections of structural trends which appear to exert a control on known mineralization, and by magnetic features which may reflect hydrothermal alteration.

Mineralization discovered on the properties typically consists of quartz or quartz-iron carbonate veins with pyrite, surrounded by zones of granite (or mafic dikes) with strong iron carbonate alteration and 1 to 10% pyrite. While the highest gold grades are commonly associated with quartz veins, numerous samples of granite-only samples with potentially economic grades (up to 10.2 g/t Au, many in excess of 1 g/t Au) were collected in the September field program. This is important because altered and mineralized granite is much more areally extensive than mineralized quartz veins.

In December 2009 TerraX released the results from a total of 575 samples collected on its Sunbeam-Pettigrew gold property during the fall of 2009. The highest assay from the Sunbeam property sampling was **16.2 g/t Au**. Based on these results, TerraX staked an additional 18 claim units (~2.9 km<sup>2</sup>) on the eastern margin of the Sunbeam property to protect a 600 m strike length of mineralized lineament that extended off the property.

Four northeast-striking, mineralized lineaments have been identified to date on the Sunbeam property; these are the **WN2/Pettigrew, Burger, Roy and Sunbeam** lineaments. Lineaments are generally small valleys or depressions, typically with incomplete surface exposure. Intermittent alteration and mineralization were noted along the lineaments over strike lengths of up to 9 km, with numerous examples of previously undocumented alteration and mineralization discovered during prospecting. The lineaments are subparallel to the nearby Hammond Reef deposit. In addition, historical zones were sampled in detail and their known areal extent expanded. Updated graphics and maps are available on our website at [www.terraxminerals.com](http://www.terraxminerals.com) and should be reviewed to assist in understanding the following detail:

**WN2/Pettigrew Lineament:** This lineament contains anomalous gold over an 8.9 km strike length, and includes the WN2 zone, historical G97 showing, Pettigrew occurrence, newly discovered Pettigrew NE zone, and other isolated anomalous occurrences. The Pettigrew occurrence has two shafts and underground workings from circa 1900.

The Pettigrew Northeast Zone is the most exciting new mineralization discovered by TerraX. It starts 600 m northeast of the Pettigrew occurrence (there are no outcrops between Pettigrew and this point), and extends to the northeast for 1.0 km. TerraX sampling returned **5.6 and 2.5 g/t Au** at the southwest end of the zone and **10.2 g/t and 1.0 g/t Au** at the northeast end. The zone is characterized by quartz-ankerite-pyrite veins surrounded by altered granite. Although the surface mineralization had not previously been documented, two holes were drilled in the area of the zone by the Canadian Nickel Company Ltd, based on a VLF response. One hole was not assayed and the other had 5.58 m @ 0.23 g/t Au. Based on the results of our recent exploration, neither hole targeted the best part of the mineralization. The WN2 Zone, which was previously known but poorly documented, is a 50 m wide x 300 m long zone of intense iron carbonate and lesser chlorite alteration in granite. Five samples in excess of 250 ppb Au were collected by TerraX, with a high of 952 ppb. TerraX obtained a value of 291 ppb at the historical G97 showing. Other isolated new showings contain up to 805 ppb Au.

**Burger Lineament:** This lineament contains anomalous gold over a 2.8 km strike length, and includes the Burger Zone, for which limited historic information is available. TerraX delineated this zone over a 400 m strike length; 28 of 34 samples collected were anomalous in Au (>20 ppb), including samples of **15.6 g/t, 6.14 g/t and 4.79 g/t Au**. The best part of the zone contains a quartz-pyrite vein on the edge of a mafic dike cutting granite. No prior drilling has been reported on this lineament.

**Roy Lineament:** The Roy lineament contains anomalous gold over an 8.4 km strike length. This includes the Roy occurrence, historical X605, BG43 and B45 showings, and two newly discovered important gold zones. The Roy occurrence has four historical shafts; TerraX obtained up to **3.83 g/t Au** from waste piles, and several anomalous gold values from altered granite nearby. New mineralization discovered by TerraX northeast of the Roy occurrence contains up to **3.27 g/t Au** in quartz flooded granite with abundant pyrite, as well as strongly anomalous values on an extension of the lineament which was recently staked by TerraX. TerraX sampling yielded 1.54 g/t Au in altered granite from the X605 showing. A mineralized zone with up to **10.4 g/t Au** was discovered in the southwest extension of the Roy lineament, in the southern part of the Sunbeam-Pettigrew property.

**Sunbeam Lineament:** This lineament features anomalous gold over at least 3.9 km of strike length, including the Road

Zone, past-producing Sunbeam deposit (not owned by TerraX) and the AL198 Zone. Three historical shafts occur at the Road Zone, where TerraX's samples returned up to **2.6 g/t Au**. Over a 190 m strike length, 19 of 24 samples collected were anomalous (>20 ppb Au), and 8 were over 0.5 g/t Au. The AL198 Zone is exposed for 215 m, and is open in both directions. Of 21 samples collected, 14 were anomalous in gold, with a high of **16.2 g/t Au**, and 7 with greater than 0.5 g/t Au. This zone has not been drill tested.

Mineralization on the Company's properties in the Marmion Batholith occurs in quartz veins and altered granite. In both cases, gold content appears to be roughly proportional to the amount of pyrite in the rock. Induced Polarization ("IP") surveying is the best method to detect disseminated pyrite, thus IP (or chargeability) anomalies will constitute drill targets. Magnetic surveying was also completed in order to provide more information about structures and alteration. Chargeability anomalies occur on all grids on which IP surveying was conducted, and in all cases they are approximately coincident with surface alteration/mineralization. In early 2010, TerraX performed a magnetic survey on a 1.6 km strike length of the Sunbeam lineament, including the AL198 Zone which returned **16.2 g/t Au**, and a magnetic/IP survey on a 2 km strike length of the Pettigrew lineament, including a zone which ran up to **10.2 g/t Au**; the latter produced a northeast-striking chargeability and coincident resistivity high anomaly occurring over at least a 1.4 km strike length.

In March 2010 TerraX added an additional forty-seven claim units in five claims (approximately 7.5 sq km) to the southern portion of the Sunbeam-Pettigrew property. The claims were staked to cover the southwest extension of the 2.8 km long Burger Lineament - an additional three km of strike length has now been acquired. The lineament contains the Burger Zone, a mineralized zone at least 400 m long, where 28 of 34 samples collected by TerraX in 2009 were anomalous in Au (>20 ppb), including previously reported samples of **15.6 g/t, 6.14 g/t and 4.79 g/t Au**.

On June 7 2010 TerraX commenced core drilling on the Sunbeam-Pettigrew property following completion of a six hole drill program at Blackfly (described more fully below). The initial Sunbeam-Pettigrew drill program comprised five holes testing near-surface IP chargeability anomalies on the Pettigrew Northeast target.

Drilling at Pettigrew Northeast focused on an 1100 m long by 100-200 m wide, northeast striking IP anomaly, from which grab samples returned up to **10.2 g/t Au** during 2009 field work. The initial Phase 1 drill program at Sunbeam-Pettigrew comprised five holes totalling 661 m that consistently encountered weak to moderate silicification, with variable chloritization and sericitization. All holes had minor amounts of pyrite, and the first two had trace pyrrhotite and chalcopyrite. Only hole 5 had significant amounts of anomalous gold, with four non-contiguous intervals of >1 m each containing > 100 ppb Au.

TerraX is encouraged by the alteration and sulphides encountered in the Pettigrew Northeast holes as well as the anomalous gold values. The experience of Brett Resources in similar alteration systems is that the width and continuity of the gold mineralization improves with depth.

In addition to the drilling program undertaken in June, prospecting programs were carried out over additional claims acquired to the Northeast and Southwest on the Sunbeam-Pettigrew property, with 229 new grab samples having been taken. Results ranged from below detection to a high of **4.05 g/t Au** from a sample collected along strike from the historic Burger showing. A new showing on the Roy Lineament (which was identified in 2009) yielded an assay of **2.70 g/t Au**. Mineralization on the WN2/Pettigrew Lineament, also identified in 2009, was extended 900 m to the southwest to the edge of the property; the best grab sample was 498 ppb Au. Two newly defined lineaments in the southern part of the property were sampled in some detail. The first outcrops over a strike length of 1.4 km, and 13 of 30 samples contained >20 ppb Au, with a high value of 405 ppb Au. The second is intermittently exposed over a strike length of 3.3 km, and produced a high value of 952 ppb Au. Alteration and anomalous gold (high value of 77 ppb Au) were discovered on a lineament trending southwest from the Rubble showing, where sampling by the Ontario Geological Survey has returned up to **48.6 g/t Au**; this lineament was followed for 1.4 km. Alteration and local anomalous gold was noted on several other newly prospected lineaments in the extreme southwest of the property, which TerraX acquired by staking in January, 2010.

In September, 2010 TerraX conducted further surface work at Pettigrew Northeast as well as the other target areas at Sunbeam-Pettigrew. This enabled us to more effectively position drill collars for drilling conducted in February, 2011. Mapping and additional sampling were conducted on the **Pettigrew Northeast, Road, AL198 and Roy targets** on the Sunbeam-Pettigrew property as well as the **Blackfly** and **Blackfly NE** targets on the Blackfly property.

Sampling of the **Road Zone** in 2009 produced anomalous mineralization over a strike length of 165 m, with a high value of **2.6 g/t Au**. Mapping of this zone in September revealed that the controlling shear structure in the immediate area of the best surface mineralization strikes approximately 240° and dips 65° northwest. Drilling on this target commenced in



February 2011.

In March 2011 TerraX received assay results from the three holes (449.3 m) that were drilled at the Road Zone to test a 100 m strike length of the zone. Each hole intersected the same 5 to 15 m wide alteration zone, consisting of strongly sericitized rock with pyrite and minor amounts of fuchsite and pyrrhotite. In hole SP11-06, this zone contained an intersection of **13.90 m of 1.11 g/t Au**, including **6.4 m of 1.74 g/t Au**. In hole SP11-07, the zone returned 2.85 m @ 115 ppb Au, and in hole SP11-08, the zone contained anomalous values of 102 ppb Au over 5.92 m. These three holes collectively provide information on the shallow portion of a coherent alteration zone that at least locally contains ore grade mineralization. The intersection in hole SP11-06 is at a higher grade than the average grade at Hammond Reef; it is worth noting that mineralization at Hammond Reef tends to improve with depth. Clearly the Road Zone needs to be further tested down-dip and along strike; further drilling is planned for the summer of 2011.

The **Pettigrew Northeast** target has been defined over 1.5 km. Outcrop stripping and mapping completed in September and re-analysis of the geophysical data relative to the surface showings, and a more detailed review of the historical drilling, all establish that the Pettigrew structure dips steeply to the northwest. It is apparent that none of the holes recently drilled by TerraX (drilled to the northwest at -50°) could have reached the mineralized zone. This target remains essentially untested, and it is still a high priority as a Hammond Reef analogy.

The **Roy Zone** occurs along the Roy lineament defined by TerraX in 2009, and known to contain anomalous gold intermittently over a strike length of at least 8.5 km. The Roy Zone contains several historical shafts. In February/March 2011 TerraX drilled two holes 70 m apart proximal to the shafts. Both holes passed through a 12 to 14 m wide zone of moderately sericitized and chloritized tonalite, with thin mafic dikes and quartz ± ankerite veins up to 50 cm across. The veins locally contain pyrite, galena, and fine-grained visible gold. In hole SP11-12, this zone ran **14.70 m @ 0.67 g/t Au**, including a higher grade interval of **1.85 m @ 4.01 g/t Au** (see Table 1). In hole SP11-13, the Roy Zone assayed **12.28 m @ 0.43 g/t Au**, with a core of **3.78 m @ 1.05 g/t Au**.

The **AL198 Zone** occurs on the Sunbeam lineament defined by TerraX in 2009, which contains the past-producing Sunbeam gold deposit, and is known to be intermittently mineralized over at least 5 km. The zone contains anomalous gold in grab samples over a 220 m strike length, with a high value of 16.2 g/t Au. TerraX drilled three holes totaling 336.0 m at AL 198, testing a 150 m strike length of the zone. Each hole intersected the same 6 to 10 m wide alteration zone, consisting of moderately sericitized rock with hematite, quartz-ankerite veining, pyrite and minor amounts of fuchsite and pyrrhotite. In hole SP11-11, this zone contained an intersection of **5.63 m of 0.98 g/t Au**, including **0.8 m of 6.12 g/t Au**. The alteration zone in hole SP11-10 ran **10.25 m @ 303 ppb Au**, and in hole SP11-09 it ran **6.16 m @ 70 ppb Au** (Table 1). These three holes collectively provide the first information on the shallow portion of a coherent alteration zone that, at least locally, contains mineralization of similar grade to the resource at Hammond Reef. The intersection in hole SP11-11 is at a higher grade than the average grade at Hammond Reef.

The alteration zone intersected at AL198 is visually identical to that intersected at the Road Zone, 2 km to the northeast (see map on web site). Combining results from the two areas, TerraX thus interprets the existence of a coherent northeast-trending alteration zone at least 2 km long, from AL198 in the southwest to the Road Zone in the northeast. The extended alteration zone has been tested by six TerraX drill holes, all of which intersected at least 5 m intervals of anomalous gold. The central part of the alteration zone has supported underground mining on the Sunbeam patent, wherein at least 1,000 ounces of gold were mined in the early 1900's. The alteration zone is open along strike in all directions as well as down-dip. Approximately 800 m of untested strike length occur between TerraX drilling at AL198 and the Sunbeam patent; no outcrops occur in this area. Likewise, 450 m of strike length occur between TerraX drilling at the Road Zone and the Sunbeam patent. Intermittent drilling along this part of the zone by Nahanni Mines in 1982 was mostly ineffective due to a combination of drill placement and core recovery issues, although the one hole to definitively intersect the alteration zone produced an intersection of 8.5 m @ 4.8 g/t Au.

**Table 1: Significant Intersections from February/March 2011 Drilling**

Hole	From (m)	To (m)	Length (m)	Gold (ppb)	Zone
SP11-06	64.30	78.20	13.90	1112	Road
SP11-07	62.88	71.35	8.47	67	Road
SP11-08	63.11	69.03	5.92	102	Road
SP11-09	63.80	69.96	6.16	70	AL198
SP11-10	63.31	73.56	10.25	303	AL198
SP11-11	59.80	65.43	5.63	983	AL198

incl	60.45	61.25	0.80	6117	AL198
SP11-12	38.21	53.00	14.79	666	Roy
incl	49.15	51.00	1.85	4014	Roy
SP11-13	41.02	53.30	12.28	429	Roy
inc	44.22	48.00	3.78	1047	Roy

TerraX is encouraged by the three alteration/mineralization zones intersected by the 2011 drilling. All zones are open along strike and down-dip, and drill testing to date of these zones has been restricted to the upper 60 vertical m; it is worth noting that mineralization at Hammond Reef tends to improve with depth. TerraX's drilling has provided firm information on the location of the prospective alteration zones, so as to enable more effective prospecting and drilling in the future. All three zones merit further drilling consisting of step-out holes to trace and assess the known alteration zones. In addition, stripping and drilling should be conducted along the 2 km strike length between the Road and AL198 zones. This work is planned for the summer/fall of 2011.

All drill core from the 2011 drill program was logged, split and sampled at a secure core facility in Atikokan. Samples were delivered by TerraX personnel to the Activation Laboratories ("Actlabs") facility in Thunder Bay. Actlabs is an ISO/IEC 17025 accredited analytical laboratory. Analysis was by fire assay with AA finish. Samples with visible gold were assayed by the metallic screen with fire assay process. Analytical accuracy and precision are monitored at the laboratory by the analysis of reagent blanks, reference material and replicate samples. Quality control is further assured by the use of international and in-house standards. TerraX routinely inserted blanks and certified standards into the sample stream in order to independently assess analytical accuracy.

### **Blackfly Property, Ontario**

In July 2009 TerraX entered into an option to acquire the Blackfly gold property in northwest Ontario. The property consists of five claims totalling 64 claim units (~10.1 km<sup>2</sup>) located 10 km northwest of the town of Atikokan, 180 km west of Thunder Bay and 17 km from Brett Resources' Hammond Reef deposit. As does the Hammond Reef deposit, the Blackfly property occurs on the western edge of the Marmion Batholith. The geology and known mineralization on the Blackfly property are similar to the Hammond Reef deposit and the Blackfly deposit appears to be along strike from Hammond Reef. The Blackfly property is 22 km west of TerraX's Sunbeam-Pettigrew property.

TerraX can earn a 100% interest in the Blackfly property over a four year period by making option payments totalling \$100,000 (of which \$60,000 has been paid), issuing 280,000 shares (of which 180,000 shares have been issued) and funding \$179,200 of exploration and development work. The vendors will retain a 2.5% NSR, 1% of which can be purchased by TerraX for \$1,000,000. An annual pre-production royalty of \$10,000 will also be in effect, commencing on July 2, 2013.

Gold-bearing quartz and quartz-carbonate veins were discovered on the Blackfly property around 1897, but the majority of previous exploration took place between 1938 and 1949. This includes the sinking of a 14 m shaft in 1938. According to the Ontario Geological Survey, mineralization consists of pyrite, galena, and possible arsenopyrite with accessory chlorite, sericite, ankerite and epidote. Sampling by the Ontario Geological Survey produced values of 8.75 g/t Au over 0.35 m in a quartz vein and 3.44 g/t Au in wallrock. TerraX visited the property briefly in May of 2009, taking two sulphide-bearing quartz vein samples which ran **2.24 g/t** and **167 g/t Au** respectively. Although the over-riding target for TerraX is a large, low grade gold deposit similar to Hammond Reef, the grades obtained to date from the quartz veins suggest that the property may also have potential for a smaller, higher grade deposit.

During field exploration at Blackfly in September 2009, sampling was concentrated in and around the northeast-trending, historical Blackfly Zone. Sampling along the exposed 300 m strike length of this zone in September returned assays up to **85.6 g/t Au**, with 11 samples in excess of 1 g/t Au. Sampling of a parallel structure 70 m northwest of the Blackfly Zone produced assays up to 1.10 g/t Au. Two additional zones of anomalous mineralization (assays up to 383 ppb Au) were discovered during limited examination of the remainder of the property. As a result, TerraX undertook a second field program on the Blackfly property in late October to extend the known mineralization and explore for new alteration/mineralization zones.

On February 2, 2010, TerraX announced that it received the final results from a total of 276 samples collected on its Blackfly gold property during the spring and fall 2009. The sampling has defined a northeast-striking, mineralized lineament with intermittent alteration and mineralization noted over a strike length of 4.4 km on the property. The highest assay from the lineament was **167 g/t Au**. This lineament is sub-parallel to and potentially along strike with the nearby Hammond Reef deposit.

Four northeast-striking lineaments with alteration have been identified to date on the Blackfly property, but anomalous gold has so far only been detected on the main lineament. TerraX collected 179 grab samples from this lineament; assays ranged from below detection to 167 g/t Au. Fifty-four samples had >50 ppb Au, 37 had >250 ppb Au and 16 had more than 1,000 ppb Au (1 g/t), including the highest values of **85.6 and 167 g/t Au**. Fifty-one samples were collected from a 410 m long high grade section of the lineament called the Blackfly Zone; 35 of these samples had >50 ppb Au, 26 had >250 ppb Au and 15 had more than 1,000 ppb Au. The Blackfly Zone has several historical pits along it, but had not previously been drill tested.

On the Blackfly property, TerraX conducted a detailed IP survey (50 to 100 m line spacing) in early 2010 over a 500 m strike length containing the Blackfly Zone, and reconnaissance IP (150 m line spacing) over a 1.8 km strike length of the main lineament in the northeast part of the property. On the Blackfly Zone, the survey identified a 300 m long by 200 m wide, northeast-striking, chargeability anomaly that is open at both ends, and is coincident with anomalously high resistivity (possibly indicating silicification). In the northeast part of the property, a 1.6 km long by up to 200 m wide, northeast-striking chargeability anomaly was identified. This anomaly is open to the southwest, towards the Blackfly Zone. The chargeability anomaly corresponds to a resistivity high and occurs along an 8 km long airborne magnetic lineament. This lineament contains the Blackfly Zone and an auriferous zone immediately northeast of the Blackfly property, recently drilled by Sparton Resources Inc. Alteration and anomalous gold values were noted on surface along the length of this anomaly during TerraX's 2009 field program.

In May 2010 TerraX commenced core drilling at Blackfly. This first phase Blackfly drill program comprised six shallow holes testing near-surface IP chargeability and resistivity anomalies on the Blackfly and Blackfly Northeast targets. These targets are on the western margin of the Marmion Batholith, in a similar geological environment to the nearby Hammond Reef gold deposit. These target areas are considered to have potential for both high grade gold related to quartz veins of significant width, and for lower grade, bulk mineable gold. This initial drill program successfully encountered both styles of mineralization, intersecting **8.26 m @ 0.94 g/t Au** in altered tonalite, and **1.07 m @ 15.1 g/t Au** in a high grade quartz vein (the "Blackfly Vein") that is open down-dip and along strike. In addition, some of the better disseminated mineralized zones were encountered near the ends of the drill holes. On the Blackfly target, hole BF10-02 was drilled behind hole BF10-01 and stopped short of the gold zone encountered at the bottom of this hole. At Blackfly Northeast, BF10-05 hit its best mineralization (**1.47 m of 2.7 g/t Au**) in altered quartz diorite near the end of the hole. Hole BF10-06 was stopped short just as it entered this rock unit, prior to intersecting the better alteration and mineralization.

Four holes totalling 670 m were drilled at the **Blackfly Target**, which consists of the Blackfly Vein and a coincident chargeability/resistivity anomaly identified during TerraX's IP survey earlier this year. Each drill hole encountered extensive silicification with associated pyrite, an important feature in this gold camp, as well as abundant quartz-ankerite veining. Hole BF10-01 intersected 3.96 m @ 0.79 g/t Au in weakly sericitized tonalite near the end of the hole at 130 m (see Table 2 below). As well, erratic anomalous values (20 to 685 ppb Au) were encountered throughout the entire length of the hole. Hole BF10-02 also intersected locally anomalous values (up to 214 ppb Au) throughout much of the hole. Hole BF10-03 intersected 0.51 m @ 2.22 g/t Au in the Blackfly Vein, and **8.26 m @ 0.94 g/t Au** in silicified tonalite with minor pyrite and chalcopyrite. Hole BF10-04 intersected **1.07 m @ 15.1 g/t Au** in the Blackfly Vein and 1.48 m @ 0.81 g/t Au in a sericitized mafic dike that has mineralized tonalite shoulders for a total intersection of 3.2 m @ 0.47 g/t Au.

An initial drill test of the **Blackfly Northeast Target** comprised two drill holes totalling 293 m, targeted solely on IP anomalies. These holes also encountered extensive silicification and pyrite development. Hole BF10-05 intersected 1.23 m @ 0.57 g/t Au, **1.47 m @ 2.70 g/t Au** and 1.47 m @ 0.73 g/t Au, as well as intermittent anomalous gold values. The latter two intersections were in a magnetic quartz diorite not previously noted on the property. An intersection of 1.11 m @ 0.79 g/t Au occurred in hole BF10-06 in strongly silicified tonalite with minor pyrite. Numerous isolated intervals of anomalous gold (up to 431 ppb) were present in the hole.

TerraX has so far tested only the upper parts of a gold-bearing hydrothermal system, and it is encouraged by the extent of the alteration zones and the associated gold mineralization. It is considered significant that the small drill program on the Blackfly Target encountered both high grade gold associated with major quartz veins, and several intersections of low grade material (the average grade of the nearby Hammond Reef deposit is 0.8 g/t Au) associated with alteration and narrow veins. The Blackfly Vein has been tested only in the upper ten vertical metres; it is open down-dip and along strike. Brett Resources' experience in similar alteration systems is that the width and continuity of the ore improve with depth. In the Hammond Reef A Deposit, many of the shallow drill holes encountered grades of 0.30-0.50 g/t Au overlying much wider and higher grade mineralization. It is also significant that TerraX has only tested a 100 m strike length of the Blackfly Target and a 150 m strike length of the Blackfly Northeast Target, both of which occur on the 4.4 km Blackfly lineament. The remainder of the strike length of this lineament has never been drill tested.

**Table 2: Mineralized Intersections on the Blackfly Property**

Target	Hole	From (m)	To (m)	Intersection
Blackfly	BF10-01	130.14	134.10	3.96 m @ 0.79 g/t Au
Blackfly	BF10-03	11.43	11.94	0.51 m @ 2.22 g/t Au
Blackfly	BF10-03	84.92	93.18	<b>8.26 m @ 0.94 g/t Au</b>
Blackfly	BF10-04	13.00	14.07	<b>1.07 m @ 15.1 g/t Au</b>
Blackfly	BF10-04	80.32	81.80	1.48 m @ 0.81 g/t Au
Blackfly Northeast	BF10-05	47.45	48.68	1.23 m @ 0.57 g/t Au
Blackfly Northeast	BF10-05	105.58	107.05	<b>1.47 m @ 2.70 g/t Au</b>
Blackfly Northeast	BF10-05	118.81	120.28	1.47 m @ 0.73 g/t Au
Blackfly Northeast	BF10-06	22.88	23.99	1.11 m @ 0.79 g/t Au

A map showing the location of the drill holes completed in May 2010 at Blackfly is available on our web site at [www.terraXminerals.com](http://www.terraXminerals.com).

In September 2010 TerraX began a program of detailed mapping that was then used to more accurately locate the second phase of drilling on these gold zones, which commenced in November 2010.

Detailed mapping in the region of the Blackfly Vein resulted in a more accurate delineation of the two main mineralized vein structures on the property. Most of TerraX's previous sampling was concentrated on the main vein, where 2009 grab samples returned up to **167 g/t Au**, and from which drill hole BF10-04 produced an intersection of **1.07 m @ 15.1 g/t Au**, and hole BF10-03 produced an intersection of **0.51 m @ 2.22 g/t Au**. This vein has now been traced on surface for a strike length of 350 m. Mapping indicated that the intersections of **8.26 m @ 0.94 g/t Au** from hole BF10-03 and **1.31 m @ 0.50 g/t Au** are likely related to the Blackfly NW vein system, which is sub-parallel to and occurs 75 m to the northwest of the main vein. The Blackfly NW vein system varies along strike from a single 30 cm quartz vein with pyrite and galena to a ~5 m wide zone of thin quartz-ankerite veins with associated pyrite. Grab sampling of the latter zone returned up to **2.08 g/t Au**. The Blackfly NW vein has been traced for 150 m on surface; it has been intersected by two drill holes to date. Twenty grab samples were collected from the Blackfly target during this fieldwork; assay results ranged from below detection to 2.08 g/t Au and include six samples with >40 ppb Au.

Mapping and sampling was also conducted on the Blackfly Northeast target, where the June 2010 drilling intersected **1.47 m @ 2.70 g/t Au** in a magnetic quartz diorite that had not previously been noted on the property. This intrusion was mapped on surface over a strike length of 285 m (and is inferred from drilling to be at least 400 m long), and has only been completely drill tested at one location. A grab sample result of **1.80 g/t Au** was obtained directly above the mineralized drill intersection, a vertical distance of 80 m. Four grab samples were collected from the Blackfly Northeast target; results ranged from 10 to 1800 ppb Au.

In late November 2010 TerraX commenced core drilling on the Blackfly Target. Results from the seven holes drilled during this program were announced in March 2011. At Blackfly Northeast, where TerraX drilled two holes, hole BF11-11 intercepted **2.0 m of 10.96 g/t Au**, including **0.7 m of 29.8 g/t Au**, at a vertical depth of 93 meters.

TerraX completed two drill holes in the northeastern portion of the Blackfly property, testing along strike from a TerraX drill intersection of 1.47 m @ 2.7 g/t Au in hole BF10-05, which was obtained from veins within a distinct, highly magnetic mafic intrusive. The holes were collared 75 m on either side of BF10-05. Both holes intersected mineralization within the same geological setting, presumably part of the same structure. BF11-11, drilled northeast of BF10-05, had an intersection of **2.0 m of 10.96 g/t Au**, which includes **0.7 m @ 29.8 g/t Au** with an adjacent sample of **1.3 m @ 0.821 g/t Au**. Hole BF11-12, drilled southwest of BF10-05, returned **1.4 m @ 0.452 g/t Au** on this same structure. This hole also had isolated intersections of **3.34 m @ 0.396 g/t Au** and **0.76 m @ 0.777 g/t Au** related to individual quartz-ankerite veins. The mineralized structure is open along strike and down-dip, and will be the target of future drill testing.

Previous work in the southern part of the property has established that there are two mineralized trends, Blackfly Main and Blackfly Northwest. Blackfly Main is a narrow, locally high grade system which has returned grab samples up to 167 g/t Au and drill intercepts up to 1.07 m @ 15.1 g/t Au. Blackfly Northwest is wider and lower grade, of a similar style to mineralization in the Hammond Reef deposit. It has returned grab samples up to 2.08 g/t Au and drill intersections up to 8.26 m @ 0.94 g/t Au. Five holes were drilled in this area but the first hole was abandoned so only four holes were completed, intersecting both mineralized zones.

The Blackfly Main vein system was recognized in two of the holes. In hole BF10-07, multiple quartz-ankerite-sericite-pyrite veins returned 1.1 m @ 361 ppb Au. In hole BF10-09, the structure occurs as a 0.8 m shear zone which ran 82 ppb Au. The vein system was not recognized in the other two holes. These results corroborate surface observations that the

thickness and grade of this vein system fluctuate dramatically along strike; clearly the same behaviour occurs down dip. The Blackfly Northwest mineralized trend was recognized in all four holes. In hole BF10-07A it is a pyrite-rich shear zone which returned **0.91 m @ 0.873 g/t Au**. In hole BF10-08, the Blackfly Northwest trend is a quartz vein-rich zone which ran 12.06 m @ 77 ppb Au. In hole BF10-09 the zone produced 6.37 m @ 98 ppb Au. Hole BF11-10, drilled 50 m along strike from all previous drilling generated two intersections which could plausibly be related to Blackfly Northwest: 3.75 m @ 611 ppb Au, and 2.16 m @ 124 ppb Au.

The Blackfly Main trend has now been identified on surface over a strike length of 345 m and drill tested over a strike length of 210 m. It has been tested by a total of seven holes, to a maximum vertical depth of 70 m. Although high grade in places the trend is a challenge to quantify because it varies erratically in character. The Blackfly Northwest trend appears to be relatively continuous over the 210 m strike length of drill testing, to a vertical depth of at least 135 m. It contains significant widths of anomalous gold (true thicknesses up to 9.5 m encountered to date). Future exploration will concentrate on delineating higher grade portions of this mineralized trend.

### **Central Canada Property, Ontario**

On January 5, 2010, TerraX announced that it had entered into an option to acquire a 100% interest in the Central Canada gold property in northwest Ontario. The property consists of seven claims totaling 24 claim units (~3.8 km<sup>2</sup>) located 20 km east of the town of Atikokan, 160 km west of Thunder Bay and 19 km from the Hammond Reef deposit. The Central Canada property is also 3 km south of TerraX's Sunbeam-Pettigrew property.

TerraX can earn a 100% interest in the Central Canada property over a four year period by making option payments totaling \$98,000, issuing 280,000 common shares and funding \$140,000 of exploration and development work. The vendors will retain a 2.5% NSR, 1% of which can be purchased by TerraX for \$1,000,000. An annual pre-production royalty of \$10,000 will also be in effect, commencing on December 11, 2013.

The Central Canada property straddles the southern contact of the Marmion Batholith, host to the Hammond Reef deposit and TerraX's Sunbeam-Pettigrew and Blackfly properties. The bulk of the property is underlain by mafic rocks outside the batholith; these have been intruded by abundant felsic dikes presumably related to the Marmion Batholith. Gold mineralization is associated with quartz-iron carbonate veins with minor pyrite and local tourmaline and/or arsenopyrite. These veins are most common in or close to felsic dikes. Dikes and veins trend easterly, parallel to the contact of the Marmion Batholith and to the strike of the regional scale Quetico Fault, which also occurs on the property. TerraX visited the property in October 2009, collecting 18 grab samples of veins and alteration. Assay values range from 9 ppb to **22.9 g/t gold**, and seven samples had >250 ppb Au. This includes results of **2.8, 4.48 and 22.9 g/t gold**.

A shaft was sunk on the property in 1901 and deepened to 130' in 1929. A 1929 Ontario Department of Mines report notes pyrite, chalcopyrite, tetrahedrite and free gold at 30 to 40' depth in the shaft, and values up to 21.0 g/t gold. Eighteen holes were drilled from 1929 to 1935. A pilot mill was constructed on site, but there is no record of gold production. Three short holes were drilled in 1965, with a best intersection of 7' (2.13 m) @ 44 g/t gold. Thirteen holes were drilled in 1985 - the best intersection was 3.8' (1.16 m) @ 30 g/t gold. A 2003 Ontario Geological Survey property visit report noted that *"gold mineralization is hosted by quartz-tourmaline veins within sheared, deformed, carbonatized and sericitized quartz porphyry. Historical reports indicated up to 7 parallel and extensional quartz vein sets over a strike length of 1000 m and across a width of 400 m..... Exploration programs should consider using induced polarization (IP) geophysical surveys to delineate disseminated sulphide mineralized zones which locally contain gold"*. Freewest Resources stripped 17 areas on the property in 2004, and collected 54 samples, of which 21 returned results >100 ppb gold, and the three highest were 1.24, 4.17 and 7.96 g/t gold. Freewest's report recommended geophysics and drilling, but this was not completed.

Induced Polarization ("IP") and magnetic surveys were conducted in February/March 2010 on the Central Canada property. Geophysical surveying covered the main mineralized zone, which returned grab sample values up to **22.9 g/t Au** in 2009. Unfortunately, this grid was not entirely surveyed due to poor weather conditions, but two incompletely defined chargeability anomalies were detected. One of these is roughly coincident with the 22.9 g/t Au sample, and one occurs in an area not previously investigated by TerraX.

A comprehensive prospecting program was carried out on the Central Canada property in June 2010. Extensive zones of shearing and carbonate-chlorite-sericite alteration with quartz veining were noted across the property. This prospecting program collected 21 new grab samples. Results ranged from below detection to a high of **39.6 g/t Au** on a sample collected near the circa 1900 shaft that occurs on the property. Importantly, two samples of approximately 1 g/t Au (907 and 1070 ppb) were taken from a new showing 500 m northeast of the shaft. This showing consists of a northeast trending sericite carbonate shear with disseminated to semi-massive pyrite and arsenopyrite.

In September 2010 TerraX conducted channel sampling on the Central Canada property, following up on assay results from prospecting undertaken at Central Canada in early 2010 that returned a **grab sample of 39.6 g/t gold**.

One hundred and twenty-three channel samples were collected over a strike length of approximately 120 m, perpendicular to a series of easterly trending quartz-carbonate-pyrite veins and felsic dikes. Twenty-four samples contained anomalous gold (20 ppb or higher), with a high value of 7.5 g/t Au. The lowest values were below detection levels. Four separate anomalous intervals were obtained, namely;

- **2.0 m @ 2.51 g/t Au (including 0.45 m @ 7.5 g/t Au);**
- **12.0 m @ 334 ppb Au;**
- **6.2 m @ 325 ppb Au; and**
- **2.65 m @ 754 ppb Au.**

Based on these results and historical information, TerraX has designed a drill campaign for Central Canada to be undertaken in the summer of 2011.

The work programs at the Sunbeam-Pettigrew, Blackfly, and Central Canada properties are being supervised by Tom Setterfield, PhD, P.Geol., and Joseph Campbell, P.Geol., who are qualified persons under the definition of National Instrument 43-101. They are responsible for all aspects of the work including the quality control/quality assurance program. All samples collected are delivered directly to Activation Laboratories Ltd. Actlab's quality control system complies with ISO/IEC 17025 and CAN-P-1579. The foregoing technical information has been verified by Tom Setterfield, PhD, P. Geol., Vice-President Exploration.

### **Stewart Gold-Copper Property, Newfoundland**

In June 2010 TerraX entered into an option to acquire a 100% interest in the Stewart Gold-Copper Property in the Burin Peninsula of Newfoundland. The Stewart property consists of 242 claims (~60.5 km<sup>2</sup>), located 30 km north-northeast of the town of Marystown, which is in turn approximately 300 km by road southwest of St. John's. The Stewart property is considered prospective for a large tonnage, low grade gold-copper deposit.

TerraX can earn a 100% interest in the Stewart property over a four year period by making option payments totalling \$105,000 and issuing 295,000 shares (of which \$30,000 and 70,000 shares have been paid), and funding \$525,000 of exploration and development work. The vendors will retain a 2% NSR, 1% of which can be purchased by TerraX for \$1,000,000.

A primary focus for TerraX on the Stewart property is extensive alteration and gold-copper mineralization that suggests the presence of a shallowly buried porphyry gold-copper deposit. The property has a historically defined 4 km long by up to 700 m wide advanced argillic alteration zone with variable amounts of pyrophyllite, alunite, hematite, sericite, pyrite and fluorite. It has been recognized that the Stewart property's sheeted and stockwork quartz veins, and its widespread advanced argillic alteration with low grade Au and Cu values, are similar to other large porphyry systems where advanced argillic alteration closely overlies porphyry mineralization, such as at **Oyu Tolgoi in Mongolia (1.39 Bt at 0.93% Cu and 0.37% Au)**. Exploration below the advanced argillic zone in search of this style and size of deposit will be a primary target for TerraX on the Stewart Property.

The original showing was discovered in 1985, and several geochemical and geophysical surveys were completed in 1986. Novamin Resources Inc. collected soil samples with values up to 1570 ppb Au (1.57 g/t Au), and basal till samples up to 1030 ppb Au (1.03 g/t Au). Novamin subsequently drilled four holes in 1986, noting long intervals of consistently anomalous gold and, where analyzed, copper (eg. 102 m @ 135 ppb Au and 385 ppm Cu in hole NG1). Soil sampling by Corona Corporation in 1989 produced coincident anomalies of Au (up to 1440 ppb or 1.44 g/t), Cu (up to 250 ppm) and Mo (up to 145 ppm) over a strike length of 1 km. The highest values corresponded with advanced argillic alteration and minor chalcopyrite. Corona drilled three shallow holes totaling 411 m in 1990 and intersected 63 m @ 0.25 g/t Au, including 5 m @ 0.84 g/t Au in hole 7434-90-02. Other elements were not assayed, but chalcopyrite, azurite, cuprite, and molybdenite were noted in the core. Cornerstone Resources Inc. acquired the property in 2007. They excavated two large trenches and exposed a very large mineralized zone, with 219 m @ 92 ppb Au and 193 ppm Cu in the Vinjer trench, and the 70 x 70 m Stewart trench, which produced 12 m @ 555 ppb Au and 826 ppm Cu.

An associated target type for the property is high sulphidation style epithermal Au deposits. The Burin Peninsula is part of the Avalon terrane, a geologic structure which can be traced from eastern Newfoundland through Nova Scotia and New Brunswick into New England, the Carolinas and northern Georgia. High-level felsic to intermediate magmas likely provided the heat and fluids responsible for numerous large hydrothermal systems along the length of the Avalon, some of

which have produced deposits that have been exploited, such as the Ridgeway deposit of 56 Mt at 1.1 g/t Au and Hope Brook in Newfoundland, with 11.2 Mt at 4.54 g/t Au and 0.30% Cu.

Two major belts of epithermal high sulphidation style alteration/mineralization, each greater than 100 km in strike length, occur in the Burin Peninsula. Exploration along the belts has been intermittent, but has produced locally significant gold, silver and copper values. TerraX personnel have worked previously in the area and recognized alteration assemblages indicative of the high sulphidation style environment documented on the Stewart property.

In early September of 2010, TerraX management conducted an initial visit to the Stewart property. TerraX was encouraged by the style and extent of alteration visible on surface, and also identified several lineaments that do not appear to have previously been prospected. TerraX began a three week field program in October that focused on mapping and sampling to further delineate the large hydrothermal alteration/mineralization system known to be present on the property and to prospect the entire property. Lesser emphasis was placed on examination of the core of the system. Results were received and announced in December 2010 and include:

- discovery of the **Forty Creek showing**, a collection of angular blocks of quartz vein material with local sulphides in the northeastern part of the property. Several blocks up to 1 m across occur within a 200 square m area. A grab sample from one block assayed **59 g/t Au** and **2290 g/t Ag**. This sample also had the highest values of Pb (>0.5%), Zn (0.44%), Hg, Sb and Se of all the samples collected by TerraX;
- anomalous gold assays obtained over 725 m in soils, with this anomalous zone open for 150 m to the southeast because of the presence of swampy ground that precluded further sampling; and
- the exposed area of hydrothermal alteration at Stewart has now been determined to be larger than originally thought, with a **strike length on the order of 6 km, and a width varying from 400 m to 1.4 km.**

A total of 138 samples were collected for assay and for determination of pathfinder elemental abundance, and 145 samples were analyzed with a Terraspec instrument for identification of key alteration minerals. Gold assay results ranged from below detection to 59 g/t, with 15 samples being 20 ppb Au or higher. The exposed area of hydrothermal alteration has been determined to be larger than originally thought, with a strike length on the order of 6 km, and a width varying from 400 m to 1.4 km. This is based on field identification of alteration, distribution of illite/muscovite as determined by a Terraspec instrument, and anomalism in elements such as Cu, Pb, Mo, As and Sb. The western 1.5 km "core" of the alteration system is anomalous in Cu, Au, Pb and Mo, has local development of quartz stockworks and sheeted veins, and is considered to be deeper in the hydrothermal system. A 600 m section of the core zone has been tested by seven shallow drill holes by past operators; 90% of the hydrothermal system has not been drill tested. The outer parts of the system contain phyllic to advanced argillic alteration, including high temperature minerals such as pyrophyllite and dickite. Such minerals are common in high temperature advanced argillic zones such as those that overlie porphyry systems. Gold values from surface grab samples collected by TerraX within this hydrothermal system ranged up to 473 ppb Au.

A 1.1 km line of soil samples was collected over the Stewart showing in the core of the alteration system to validate previous soil results. Samples were spaced 25 m apart. Anomalous gold results were obtained over 725 m, and the anomalous zone is open for 150 m to the southeast because of the presence of swampy ground. Within this anomalous interval of 30 samples, 26 were higher than 20 ppb Au, with a high of 640 ppb Au and an average of 160 ppb Au. Background values beyond this interval reached a high of 9 ppb Au (most were below detection). Within the same interval, Cu, Mo, Pb, Zn and Se were also clearly anomalous. These results are considered to be very encouraging, and validate the use of soils as an exploration tool at Stewart.

TerraX expanded its land position at Stewart to the northeast due to the discovery of the Forty Creek showing and to cover two anomalous gold samples (68 and 115 ppb Au) collected on open ground south of the Forty Creek showing. An additional 30 claims (7.5 sq km) were staked. TerraX also staked 39 claims (9.75 sq km) to cover the potential southwest extension of the known alteration and mineralization zone.

In January 2011 TerraX resumed fieldwork at Stewart. Soil sampling was carried out on the property to follow up on a 725 meter wide Au, Cu, Mo anomaly previously reported by TerraX from a test line of soil surveying across the strike of the alteration zone. The objective of this soil sampling was to delineate the full extent of the gold anomalism within this large hydrothermal alteration system, and to follow up the newly discovered Forty Creek showing (grab sample of **59 g/t Au** and **2290 g/t Ag**).

In addition to the soil survey work, TerraX contracted Quantec Geosciences to carry out Titan 24 ground geophysics across

2.5 kilometers of strike length on the alteration zone. This program was designed to pick up epithermal or more likely porphyry-style mineralization up to a depth of 500 meters below surface. Line cutting for the survey commenced in the second week of February, with the Titan surveying following shortly thereafter. In addition, Geo Data Solutions Inc. was contracted to fly an airborne magnetic survey over the entire property; this survey was completed in April.

On May 9 2011 TerraX announced the results from the Titan IP, soil geochemistry, and airborne magnetic surveys conducted at Stewart. Quantec Geosciences completed Titan 24 ground geophysics (deep penetration IP) across 2.5 km of strike length on the 6 km long alteration zone. Three separate chargeability anomalies were identified, collectively defining a zone of anomalous chargeability which spans the entire length of the survey area (2.5 km).

One Titan 24 chargeability anomaly intersects the surface in the western portion of the surveyed area where the previous shallow drilling and trenching is coincident with the anomaly. Here the anomaly is shallow, restricted to 250 m of dip length (possibly has had a portion removed by erosion). A much larger buried zone of mineralization is potentially indicated by a significantly thicker and longer strike length anomaly of similar amplitude that is concealed by sulphide-poor altered rocks as it plunges to the northeast. The maximum width of the larger anomaly is 800 m and its vertical extent reaches more than 500 m, plunging deeper towards the northeast. The defined anomalous chargeability is open along strike to the southwest and northeast. Maps showing the results of the Titan 24 IP survey are available on our web site at [www.terraxminerals.com](http://www.terraxminerals.com).

As part of TerraX's exploration strategy for defining potential drill targets, 609 soil samples were collected in January/February over an area similar to the area surveyed by Titan and over the Forty Creek area. Gold values from this survey ranged from below detection to 334 ppb, with 54 of the samples containing >20 ppb gold. Data was combined with results from the 39 orientation soil samples collected in 2010 and the combined data defines a gold anomaly (>20 ppb Au) 800 m long and up to 750 m wide, open to the southwest, where the alteration zone is covered by a lake. The gold anomaly is mostly coincident with a coherent but more areally restricted copper anomaly and a diffuse molybdenum anomaly as defined by the ninety percentile values of both latter elements. All three elemental anomalies, particularly copper, are strongly coincident with the near-surface chargeability anomaly.

An airborne magnetic survey was flown over the entire property by Geo Data Solutions Inc. The major geological contact on the property between granite in the north and volcanics in the bulk of the property is reflected in the magnetic signature—the volcanics having a higher and more complex magnetic response. The data shows a series of northeast structures offset by east-southeast structures, and importantly, a structural connection between the mapped alteration zone and the Forty Creek showing. One of these northeast structures is coincident with the known alteration system.

The interpretation from the work conducted early in 2011 is that the large hydrothermal system defined by surface mapping contains significant sulphides over a strike length of at least 3 km, and that the sulphide-bearing portion of the system plunges to the east. This ties in well with the soil geochemistry, which shows anomalous gold-copper-molybdenum at surface in the western part of the alteration system, with the anomalies diminishing to the east. The implication is that metal anomalism plunges to the east, coincident with sulphide concentration. This theory is corroborated by the limited historical drilling, which tested the upper portions of a shallow chargeability zone and returned anomalous gold, copper and molybdenum. The majority of the hydrothermal system has not been tested by drilling. In the porphyry gold-copper scenario that is emerging at Stewart, the best grades need not correlate with the highest chargeability (likely abundant pyrite), but may be associated with low to moderate chargeability (lower sulphide content but dominated by chalcopyrite) adjacent to or underneath the strongest chargeability. Multiple drill targets are evident from this line of thinking. Our initial target type for the Stewart property was for a mineralized system similar to Oyu Tolgoi in Mongolia, and the IP anomalies we've defined exceed, both in size and intensity, our most optimistic expectations.

The high grade Forty Creek showing represents a second target on the property. Soil sampling has identified a strong three-line (450 m wide) arsenic anomaly proximal to the showing, and the airborne magnetic survey has shown a structural connection between Forty Creek and the main alteration zone.

Additional fieldwork was undertaken on the property in May 2011. The objective was to conduct additional prospecting in the Forty Creek area and on structures deduced from the new magnetic data; conduct a thorough structural evaluation of the central part of the property; obtain additional geological information over the main alteration zone to understand its relationship to the Forty Creek area; and firm up drill targets apparent from the geophysical information. Deep drilling on the property is being scheduled for mid-year.

#### **Paradox Public Relations Inc. retained for investor relations services**

In April 2010 TerraX retained the services of Paradox Public Relations Inc. of Montreal as strategic investor relations



consultants to the company. Paradox will focus on developing and expanding TerraX's communications with the investment community through a comprehensive investor relations program. Paradox has provided investor relations services to businesses in multiple industries for the past nine years.

Paradox has been engaged for a 24-month term. Under the terms of the agreement, Paradox will be paid \$5,000 per month and has been granted 400,000 incentive stock options exercisable at \$0.30 per share for a period of two years, subject to vesting provisions. The agreement can be terminated by either party upon 30 days notice after an initial period of six months.

### **Private Placements**

In April 2010 TerraX completed a non-brokered private placement of 750,000 units at a price of \$0.20 per unit for net proceeds to the Company of \$150,000. Each unit consists of one share and one warrant, with each warrant exercisable to purchase an additional share of the Company at \$0.25 until March 31, 2012.

On May 17 2010 TerraX announced a non-brokered private placement of 3,000,000 units at a price of \$0.30 per unit. Due to demand, this placement was subsequently increased to 3,631,266 units at \$0.30 per unit, for gross proceeds of \$1,089,380, and completed in June 2010. Each unit consists of one common share and one half-warrant, with each full warrant entitling the holder to purchase an additional share at an exercise price of \$0.40 per share until June 2, 2012. Finders fee in cash totalling \$73,506 were paid with respect to this placement, along with 227,635 finders warrants exercisable at \$0.40 until June 2, 2012.

On November 19, 2010 TerraX announced a non-brokered private placement of 2,700,000 flow-through units at a price of \$0.30 per unit. Due to demand, the placement was increased to 4,722,865 flow-through units at a price of \$0.30 per unit and closed on December 9, 2010 for gross proceeds of \$1,416,889. Each unit consists of one flow-through common share and one half of one non-flow-through warrant, with each full warrant entitling the holder to purchase an additional non-flow-through common share at an exercise price of \$0.40 per share until December 9, 2012. The shares and any shares acquired on the exercise of warrants will be subject to a hold period expiring on April 10, 2011. Finder's fees in cash totalling \$77,214 were paid with respect to a portion of this placement.

The net proceeds from this private placement will be used to accelerate exploration drilling on the Company's Blackfly, Sunbeam-Pettigrew and Central Canada gold exploration projects near Atikokan in northwestern Ontario as well as exploration of the Stewart gold-copper property in Newfoundland during 2011.

In January 2011 TerraX announced and completed an additional non-brokered private placement of 1,350,000 shares at price of \$0.30 per share for gross proceeds of \$405,000. A finder's fee in cash of \$28,350 was paid with respect to this placement, for which no warrants were issued.

### **Options Granted**

On April 10, 2010 the Company agreed to grant 400,000 incentive stock options to Paradox Public Relations, as noted above. On March 31, 2010 the Company granted incentive stock options to consultants on 100,000 common shares at an exercise price of \$0.32 per share for a two year period. On August 31, 2010 the Company granted incentive stock options to a consultant on 100,000 common shares at an exercise price of \$0.25 for a two year period. On January 31, 2011 the Company granted incentive stock options to various consultants on 170,000 common shares at an exercise price of \$0.25 for a two year period.

### **Current Economic Conditions**

During fiscal 2011, the ongoing global credit crisis and economic weakness have made for extremely volatile capital markets characterized by weaker equity prices and an environment in which limited opportunities existed to raise additional capital. While stronger commodity prices have provided financing opportunities which TerraX has capitalized on to augment its working capital, management of the Company remains cautious and will continue to take the necessary precautions to maintain its cash reserves. The Company has commitments in the future (later this fiscal year and beyond) on its mineral properties and the Company may be forced to abandon and write-off one or more of these properties if the Company does not have the means to meet these commitments, or does not feel it is fiscally prudent to do so.

The Company currently has sufficient cash to meet all obligations during fiscal 2012 and does not believe that any write-downs of its mineral properties are required at this time. The Company will be reviewing its mineral property commitments as well as its working capital position on an ongoing basis during fiscal 2012 and may elect to abandon properties when obligations become due if management deems it necessary in order to maintain the long-term viability of the Company.

## Results of Operations – Year ended January 31, 2011

Operating expenses for the year ended January 31, 2011 totaled \$516,126 as compared to \$259,323 during the year ended January 31, 2010. The significant expenditures were as follows:

The Company incurred consulting expense of \$18,825 during the year ended January 31, 2011 primarily for review of potential property acquisitions. This compares to consulting expense of \$5,363 incurred during the prior year.

During the year ended January 31, 2011, the Company incurred \$23,152 for office, rent and miscellaneous expenses which is comparable to the \$19,113 incurred during the same period a year prior.

The Company spent \$272,990 for transfer agent, filing fees and shareholder communications during the year ended January 31, 2011. This represents a substantial increase from the \$59,510 incurred during the same period a year prior, primarily due to a significant increase in shareholder communications activity, including advertising, during the current period.

Professional fees of \$28,300 were incurred during the year ended January 31, 2011. This is increased from the \$21,426 incurred during the same period a year prior due to additional legal and accounting fees incurred during the current period.

Stock-based compensation expense of \$155,750 (a non-cash item) was incurred during the year ended January 31, 2011 due to the vesting of incentive stock options granted to consultants during the current and prior periods. This compares to stock based compensation expense of \$147,160 incurred during the same period a year prior when options were granted to directors and consultants that vested immediately on grant.

The Company incurred travel expenses of \$17,109 during the year ended January 31, 2011 for investor presentations. This compares to \$6,751 incurred during the year prior for the same purpose.

During the year ended January 31, 2011, the Company earned interest income of \$6,027 on cash and cash equivalents on hand. This compares to \$1,972 earned during the year ended January 31, 2010 when the company had less cash on hand.

During the year ended January 31, 2010 the Company recognized a write-off on mineral properties of \$805,923 due to the abandonment of the Needle property. There was no comparable write-off during the current fiscal year.

As a result of the foregoing, the Company incurred a net and comprehensive loss for the year ended January 31, 2011 of \$510,099 as compared to a loss of \$1,063,274 during the comparable period a year prior.

## Selected Annual Information

	<b>Year ended January 31, 2011</b>	<b>Year ended January 31, 2010</b>	<b>Year ended January 31, 2009</b>
Revenue	Nil	Nil	Nil
Income (Loss) before Other Items	(516,126)	(259,323)	(170,738)
Per Share	(0.03)	(0.02)	(0.02)
Net Income or (Loss)	(510,099)	(1,063,274)	(161,480)
Per Share	(0.03)	(0.10)	(0.02)
Total assets	\$3,437,600	\$715,200	\$1,084,201
Long-Term Liabilities	Nil	Nil	Nil

The net loss for the fiscal year ended January 31, 2010 increased to \$1,063,274 from the loss of \$161,480 incurred during fiscal 2009 primarily due to a write-off of mineral property expenditures of \$805,923 incurred on the Needle property in Nunavut, which the Company intends to abandon. Additional expenditures were incurred during the current fiscal period for transfer agent, filing fees and shareholder communications expenses as well as for stock-based compensation expense, a non-cash item that increased to \$147,160 (2009-\$92,865) due to additional stock options granted during the current period.

The net loss for the fiscal year ended January 31, 2011 decreased to \$510,099 from the loss of \$1,063,274 incurred during fiscal 2010 primarily due to the elimination of write-offs of mineral property expenditures during the current period. Expenditures for transfer agent, filing fees and shareholder communications expenses increased to \$272,990 during the current fiscal period from the \$59,510 incurred during fiscal 2010 due to increased shareholder communications expenses,

such as advertising, IR consultants and trade shows. In addition, stock-based compensation expense, a non-cash item, increased slightly to \$155,750 (2010-\$147,160) due to additional stock options granted and vested during the current period.

#### Summary of Quarterly Results

	<u>Q4-11</u>	<u>Q3-11</u>	<u>Q2-11</u>	<u>Q1-11</u>	<u>Q4-10</u>	<u>Q3-10</u>	<u>Q2-10</u>	<u>Q1-10</u>
<b>Revenue</b>	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
<b>Net Loss (\$)</b>	158,639	131,030	159,630	60,800	918,786	104,035	25,436	15,017
<b>Per Share (\$)</b>	0.01	0.01	0.01	0.01	0.10	0.01	0.01	0.01

During the first quarter of fiscal 2010, the loss increased slightly to \$15,017 from the \$13,478 incurred during the prior fiscal quarter due to an increase in travel expenses during the current period.

The loss for the second quarter of fiscal 2010 increased to \$25,436 from the \$15,017 incurred during the first quarter due to an increase in professional fees and filing fees during the current period for property acquisitions and private placements completed during the period.

The loss for the third quarter of fiscal 2010 increased to \$104,035 primarily because of stock-based compensation, a non-cash expense, incurred during the current period due to the granting of incentive stock options to management, directors and consultants. There were no incentive stock options granted during the two prior fiscal quarters.

The loss for the fourth quarter of fiscal 2010 increased to \$918,786 primarily due to the write-off of mineral property acquisition and deferred exploration costs totalling \$805,923 during the period.

The loss for the first quarter of fiscal 2011 (the three months ended April 30, 2010) decreased to \$60,800 as there were no write-offs of mineral properties during the period, as compared to write-offs totalling \$805,923 during the fourth quarter of fiscal 2010.

The loss for the second quarter of fiscal 2011 increased to \$159,630 primarily due to stock-based compensation, a non-cash expense, of \$85,526 incurred during the current period due to the granting of incentive stock options to management, directors and consultants.

The loss for the third quarter of fiscal 2011 decreased to \$131,030 primarily due to elimination of consulting expense and reductions in stock-based compensation (a non-cash expense), professional fees, travel expenses and shareholder communications expenses.

The loss for the fourth quarter of fiscal 2011 increased to \$158,639 from the \$131,030 incurred during the prior quarter primarily due to additional filing fees incurred with respect to private placements completed during the current period and additional expenditures on trade shows and shareholder communications.

#### Liquidity and Capital Resources

TerraX is in the development stage and therefore has no regular cash flow. As at January 31, 2011, the Company had working capital of \$2,199,290, inclusive of cash and cash equivalents of \$2,189,097. This compares to working capital of \$482,698 at January 31, 2010, inclusive of cash and cash equivalents on hand at that time of \$465,586.

As at January 31, 2011, the Company had current assets of \$2,283,348, total assets of \$3,437,600 and total liabilities of \$84,058. The Company has no long-term debt. There are no known trends in the Company's liquidity or capital resources.

The principal assets of the Company are its mineral exploration properties, amounting to \$1,154,252 as at January 31, 2011.

The increase in cash during the year ended January 31, 2011 of \$1,723,511 was due to cash received from the issuance of common shares of \$2,907,185, offset by cash used by operating activities of \$429,713 and cash used in mineral property acquisition and exploration of \$753,961. During the year ended January 31, 2010, cash increased by \$180,778 as a result of cash provided from the issuance of common shares of \$507,900, offset by cash used by operating activities of \$142,117 and cash spent on mineral exploration of \$185,005.

On March 31, 2010, the Company completed a private placement for \$150,000. In June 2010 another private placement

was completed for gross proceeds of \$1,089,380. A flow-through private placement for gross proceeds of \$1,416,860 was completed in December 2010. The proceeds of the this flow-through private placement must be spent on eligible Canadian exploration expenses during calendar 2011 and will provide sufficient funding to conduct the required exploration at the Sunbeam-Pettigrew, Blackfly, Central Canada and Stewart properties during fiscal 2012. In January 2011 the Company completed a further private placement for gross proceeds of \$405,000. It is anticipated that the Company will have to obtain other financing or raise additional funds in order to conduct further exploration on its properties during fiscal 2013. While the Company has been successful in the past in obtaining financing through the sale of equity securities, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in the delay or indefinite postponement of further exploration and development of its properties

Cash flow to date has not satisfied the Company's operational requirements. The development of the Company may in the future depend on the Company's ability to obtain additional financings. In the past, the Company has relied on the sale of equity securities to meet its cash requirements. Future developments, in excess of funds on hand, will depend on the Company's ability to obtain financing through joint venturing of projects, debt financing, equity financing or other means. There can be no assurances that the Company will be successful in obtaining any such financing or in joint venturing its property.

### **New Accounting Pronouncements Not Yet Adopted**

In 2006, the Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transitional date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended January 31, 2011.

The Company developed a conversion plan consisting of four key stages including; project planning and preliminary assessment, detailed assessment, design and implementation. The project planning and preliminary assessment stage has been completed. The preliminary assessment was completed with the assistance of external advisors and training and outlines the significant differences between Canadian GAAP and IFRS and rates the impact of each of the significant differences on the entity's financial statements, thereby allowing the Company to focus the detailed assessment on the highest priority items.

### **Risk, Uncertainties and Outlook**

The business of mineral deposit exploration and extraction involves a high degree of risk. Few properties that are explored ultimately become producing mines. At present, none of the Company's properties has a known commercial ore deposit. Other risks facing the Company include competition for mineral properties, environmental and insurance risks, fluctuations in metal prices, fluctuations in exchange rates, share price volatility and uncertainty of additional financing.

### **Going concern**

The Company is in the exploration stage and has no revenue or income from operations. The Company has limited capital resources and has to rely upon the sale of equity and/or debt securities for cash required for exploration and development purposes, for acquisitions and to fund the administration of the Company. Since the Company does not expect to generate any revenues from operations in the near future, it must continue to rely upon the sales of its equity or debt securities or joint venture agreements to raise capital. It follows that there can be no assurance that financing, whether debt or equity, will be available to the Company in the amount required by the Company at any particular time or for any period and that such financing can be obtained on terms satisfactory to the Company.

The Company's financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to obtain the necessary financing to meet its ongoing commitments and further its mineral exploration programs.

The Company may encounter difficulty sourcing future financing in light of the recent economic downturn. The current financial equity market conditions and the inhospitable funding environment make it difficult to raise capital through the private placements of shares. The junior resource industry has been severely affected by the world economic situation as it is considered speculative and high-risk in nature, making it even more difficult to fund. While the Company is using its

best efforts to achieve its business plans by examining various financing alternatives, there is no assurance that the Company will be successful with any financing ventures.

### **Related Party Transactions**

During the year ended January 31, 2011, \$18,000 (2010 - \$18,000) was paid to a private company wholly-owned by Stuart Rogers, a director and officer of the Company, for office rent and administration services provided to the Company.

During the year ended January 31, 2011, the Company paid \$192,777 (2010 - \$62,946) to a private company in which Joe Campbell, the President of the Company, and Tom Setterfield, a director of the Company, are principals for geologic consulting services and expenses incurred on the Company's properties during the current period.

These transactions were in the normal course of operations and were measured at the exchange amount, which was the amount of consideration established and agreed to by the related parties.

### **Capital Management**

The capital structure of the Company consists of common shares and working capital. The Company's objectives when managing capital are to: (i) preserve capital, (ii) obtain the best available net return, and (iii) maintain liquidity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic condition and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments.

The Company's policy is to invest its excess cash in highly liquid, fully guaranteed, bank-sponsored instruments. This strategy is unchanged from fiscal 2011.

The Company is not subject to externally imposed capital restrictions. There were no changes to its capital management approach in the year.

### **Risk, Uncertainties and Outlook**

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### **Risk Management**

#### **Management of Industry Risk**

The Company is engaged primarily in mineral exploration and manages related industry risk issues directly. The Company may be at risk for environmental issues and fluctuations in commodity pricing. Management is not aware of and does not anticipate any significant environmental remediation costs or liabilities in respect of its current operations.

#### **Management of Financial Risk**

The Company's financial instruments are exposed to certain financial risks, which include credit risk, liquidity risk, and market risk.

#### **Credit Risk**

Credit risk is the risk that one party to a financial instrument will fail to fulfil an obligation causing the other party to incur a financial loss. The Company is exposed to credit risks arising from its cash holdings. The Company manages credit risk by placing cash with reputable Canadian financial institutions and management believes the risk of loss to be remote. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

**Liquidity Risk**

Liquidity risk is the risk that the Company will not have sufficient funds to meet its financial obligations when they are due. To manage liquidity risk, the Company reviews additional sources of capital to continue its operations and discharge its commitments as they become due.

**Market Risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and price risk.

**Currency Risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's functional currency is the Canadian dollar. The Company is not exposed to currency risk as all of its mineral property interests are located in Canada.

**Interest Rate Risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to significant interest rate risk.

**Financial Instruments**

The Company's financial instruments consist of cash, short-term investments, receivables and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

**Contingencies**

The Company is aware of no contingencies or pending legal proceedings as of May 30, 2011.

**Off Balance Sheet Arrangements**

The Company has no Off Balance Sheet arrangements.

**Equity Securities Issued and Outstanding**

The Company had 23,624,131 common shares issued and outstanding as of May 30, 2011. In addition, there were 2,395,000 incentive stock options and a total of 8,029,701 share purchase warrants outstanding as of May 30, 2011.

**Disclaimer**

The information provided in this document is not intended to be a comprehensive review of all matters concerning the Company. It should be read in conjunction with all other disclosure documents provided by the Company, which can be accessed at [www.sedar.com](http://www.sedar.com). No securities commission or regulatory authority has reviewed the accuracy or adequacy of the information presented herein.

Certain statements contained in this document constitute "forward-looking statements". Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressly stated or implied by such forward-looking statements. Such factors include, among others, the following: mineral exploration and development costs and results, fluctuation in the prices of commodities for which the Company is exploring, competition, uninsured risks, recoverability of resources discovered, capitalization requirements, commercial viability, environmental risks and obligations, and the requirement for obtaining permits and licenses for the Company's operations in the jurisdictions in which it operates.