X-Terra Resources Corporation
(formerly Canadian Empire Exploration Corp.)

Consolidated Financial Statements
December 31, 2006 and 2005

April 11, 2007

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of the company have been prepared by management in accordance with Canadian generally accepted accounting principles, and contain estimates based on management's judgement. Management maintains an appropriate system of internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded, and proper records maintained.

The Audit Committee of the Board of Directors has met with the company's independent auditors to review the scope and results of the annual audit and to review the consolidated financial statements and related financial reporting matters prior to submitting the consolidated financial statements to the Board for approval.

The company's independent auditors, PricewaterhouseCoopers LLP, are appointed by the shareholders to conduct an audit in accordance with generally accepted auditing standards in Canada and their report follows.

(signed) Jeannine P.M. Webb

Jeannine P.M. Webb
Chief Financial Officer

(signed) John S. Brock

John S. Brock
President

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Independent Auditors' Report

To the Shareholders of
X-Terra Resources Corporation

We have audited the consolidated balance sheets of **X-Terra Resources Corporation** (formerly Canadian Empire Exploration Corp.) as at December 31, 2006 and 2005 and the consolidated statements of loss and deficit, deferred exploration and mineral property expenditures and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, Canada
April 11, 2007

X-Terra Resources Corporation
(formerly Canadian Empire Exploration Corp.)
Consolidated Balance Sheets
As at December 31, 2006 and 2005

	2006 $	2005 $
Assets		
Current assets		
Cash and cash equivalents	13,987	17,450
Accounts receivable	110	3,330
	14,097	20,780
Reclamation deposits (note 3)	-	11,300
	14,097	32,080
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	32,325	203,060
Due to management company (note 7)	11,782	120,534
Related party promissory notes (notes 7 and 9)	183,534	-
	227,641	323,594
Shareholders' Deficiency		
Capital stock (notes 5 and 9)		
Authorized		
Unlimited common shares without par value		
Issued		
36,389,366 (2005 - 36,364,366) common shares outstanding	21,813,127	21,811,752
Contributed surplus (note 6)	460,854	438,591
Deficit	(22,487,525)	(22,541,857)
	(213,544)	(291,514)
	14,097	32,080

Nature of operations and going concern (note 1)

Subsequent events (note 9)

Approved by the Board of Directors

(signed) John S. Brock Director (signed) R.E. Gordon Davis Director

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

X-Terra Resources Corporation

(formerly Canadian Empire Exploration Corp.)
Consolidated Statements of Loss and Deficit
For the years ended December 31, 2006 and 2005

	2006 $	2005 $
Administration expenses		
Audit and related services	15,180	28,199
Bank charges	2,376	553
Tax penalty on flow-through shares renounced	-	8,044
Consulting	3,100	4,751
Insurance	1,700	12,958
Interest on promissory notes	8,534	-
Legal	21,406	14,155
Gain on foreign exchange	(35)	-
Management and administrative services	5,476	21,756
Office operations and facilities	1,017	35,462
Shareholder communication	5,408	7,246
Transfer agent and filing fees	28,298	43,069
	92,460	176,193
Other expenses (income)		
Interest income	(1)	(27)
Reclamation bond recovered	(4,398)	-
Forgiveness of amount due to related party (note 9)	(70,154)	-
Write-off of accrued liability	(96,644)	-
Stock-based compensation (note 6)	22,263	89,788
Write-off of exploration expenditures (note 4)	219	1,197,316
Write-off of property acquisition costs (note 4)	954	117,089
General exploration expenditures	969	4,385
	(146,792)	1,408,551
(Income) loss before income taxes	(54,332)	1,584,744
Future income tax recovery (note 8)	-	(119,420)
(Income) loss for the year	(54,332)	1,465,324
Deficit - Beginning of year	22,541,857	21,076,533
Deficit - End of year	22,487,525	22,541,857
Basic and diluted (income) loss per common share	0.00	0.04
Weighted average number of common shares outstanding	36,381,033	36,333,530

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

X-Terra Resources Corporation

(formerly Canadian Empire Exploration Corp.)

Consolidated Statements of Deferred Exploration and Mineral Property Expenditures

For the years ended December 31, 2006 and 2005

	2006 $	2005 $
Exploration and mineral property expenditures		
Accommodation	-	12,991
Assay and geochemical analysis	-	41,975
Consulting	-	55,550
Environmental and permitting	-	11,436
Expediting	1	163
Field supplies	-	5,470
Maps, printing and drafting	841	11,170
Project management fees	88	27,064
Property acquisition costs	953	8,789
Salaries and wages	259	74,244
Transportation	-	125,006
	2,142	373,858
Write-off of exploration expenditures	219	(1,197,316)
Write-off of property acquisition costs	954	(117,089)
General exploration expenditures	969	(4,385)
	(2,142)	(1,318,790)
Decrease in deferred exploration and mineral property expenditures	-	(944,932)
Balance - Beginning of year	-	944,932
Balance - End of year (note 4)	-	-

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

X-Terra Resources Corporation

(formerly Canadian Empire Exploration Corp.)

Consolidated Statements of Cash Flows

For the years ended December 31, 2006 and 2005

	2006 $	2005 $
Cash flows from operating activities		
Income (loss) for the year	54,332	(1,465,324)
Items not affecting cash		
Forgiveness of amount due to related party	(70,154)	-
Write-off of accrued liability	(96,644)	-
Stock-based compensation	22,263	89,788
Write-off of exploration expenditures	219	1,197,316
Write-off of property acquisition costs	954	117,089
Future income tax recovery	-	(119,420)
Other	(4,398)	-
	(93,428)	(180,551)
Changes in non-cash working capital items		
Accounts receivable	3,220	41,081
Current liabilities	(104,155)	71,351
	(194,363)	(68,119)
Cash flows from financing activities		
Issue of common shares	1,375	-
Advance from related parties	175,000	-
	176,375	-
Cash flows from investing activities		
Property acquisition costs	(954)	(5,260)
Reclamation bond returned	15,698	-
Exploration expenditures	(219)	(360,685)
	14,525	(365,945)
Decrease in cash and cash equivalents	(3,463)	(434,064)
Cash and cash equivalents - Beginning of year	17,450	451,514
Cash and cash equivalents - End of year	13,987	17,450

Supplemental cash flow information

Non-cash operating and financing activities		
Issue of shares for share issue costs	-	8,503
Issue of shares for mineral property costs	-	3,529
	-	12,032

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

1 Nature of operations and going concern

X-Terra Resources Corporation (the company) is in the business of acquiring and exploring mineral properties. At December 31, 2006, the company did not hold any mineral property interests.

As at December 31, 2006, the company had cash and cash equivalents of $13,987 (2005 - $17,450) and a working capital deficiency of $213,544 (2005 - deficiency of $291,514); and had relinquished all of its previous interests in resource assets.

The company's ability to continue operations and exploration activities is dependent on management's ability to secure additional financing. Management is actively pursuing such additional sources of financing, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. Because of this uncertainty, there is substantial doubt about the ability of the company to continue as a going concern. The company is currently dependent on advances from related parties to be able to meet its liabilities in the short term.

These consolidated financial statements do not include the adjustments that would be necessary should the company be unable to continue as a going concern. Such adjustments could be material.

2 Significant accounting policies

Accounting principles

These consolidated financial statements are prepared in accordance with generally accepted accounting principles applicable in Canada.

Principles of consolidation

These consolidated financial statements include the accounts of the company and its fully integrated foreign subsidiaries, Minera Reina Isabel, S.A. de C.V. (Minera Reina) and Minera Tatemas, S.A. de C.V. (Minera Tatemas), which were incorporated to carry out mineral exploration and development programs in Mexico and are currently inactive.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles in Canada requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and stock-based compensation and disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of expenditures during the reporting period. Actual results could differ from those reported.

Cash and cash equivalents

Cash and cash equivalents include cash and short-term deposits maturing within 90 days of the original date of acquisition.

Resource assets

The company records its interests in mineral properties and areas of geological interest at cost less option payments received and other recoveries. Exploration and development costs and royalties relating to these interests and projects 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, allowed to lapse or become impaired. The company expenses all administration costs incurred during the year. Management reviews the net carrying value of resource assets when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Quarterly, senior management reviews the carrying value of deferred mineral property acquisition and exploration expenditures to assess whether there has been any impairment in value. In the event that mineral deposits are determined to be insufficient to recover the carrying value of any property, the carrying value will be written down to fair value or written off, as appropriate.

Although management takes steps to verify title to mineral properties in which the company may have an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the company’s title. Property title may be subject to unregistered prior agreements and be in non-compliance with regulatory requirements.

Mineral property option agreements

Option payments are made at the discretion of the optionee and, accordingly, are accounted for when received. Option payments received will be treated as a reduction of the carrying value of the related mineral property and deferred costs until the company’s costs are recovered. Option payments received in excess of costs incurred will be credited to income.

Income taxes

Future income tax assets and liabilities are determined based on the differences between the tax basis of assets and liabilities and those reported in the financial statements. The future tax assets or liabilities are calculated using substantively enacted tax rates and laws that are expected to be in effect in the periods in which the future income tax assets or liabilities are expected to be settled or realized. Future tax assets are recognized only to the extent that they are considered more likely than not to be realized.

Translation of foreign currencies

The functional currency of the company is the Canadian dollar. Monetary assets and liabilities are translated into Canadian dollars at the exchange rates in effect at the balance sheet date and non-monetary assets and liabilities at the exchange rates in effect at the time of acquisition or issue. Income and expenses are translated at rates approximating exchange rates in effect at the time of the transactions. Exchange gains and losses arising on translation are included in loss for the year.

Loss per common share

Loss per common share is calculated using the weighted average number of common shares issued and outstanding during each year. Basic and diluted loss per share are the same, as the effect of exercise of share options and warrants would be anti-dilutive.

Stock-based compensation

The company applies the fair value method of accounting for stock options granted to directors, officers and employees. Consideration received on exercise of stock options is credited to capital stock.

Financial instruments

Accounts receivable, accounts payable and accrued liabilities, amounts due to management company and related party promissory notes are reported at amounts paid or recovered, which are reasonable estimates of fair value due to the relatively short period to maturity.

3 Reclamation deposits

During 2006, $11,300 previously pledged as security for potential reclamation costs was returned.

4 Resource assets

a) Atikokan West property

During 2004, the company acquired the right to earn an 80% interest in the Atikokan West property. During the year ended December 31, 2005, the company relinquished the Atikokan West property and wrote off $403,322 of deferred exploration expenditures.

b) Silver Hope property

During 2004, the company entered into an agreement to earn a 65% interest in the Silver Hope property. During the year ended December 31, 2005, the company relinquished the Silver Hope property and wrote off $96,421 of property acquisition costs and $335,379 of deferred exploration expenditures.

c) McBride property

During 2004, the company entered into a grubstake agreement with two prospectors. In 2005, pursuant to the grubstake agreement, the company entered into a further agreement to earn an initial 90% interest in the McBride property. Under the terms of the agreement, the company issued 50,000 units during 2005 for fair value of $778 in respect of the shares and $2,750 in respect of the warrants. Prior to December 31, 2005, the company relinquished the McBride property and wrote off $6,157 of property acquisition costs and $382,135 of deferred exploration costs. During 2006, the company incurred and wrote off latent exploration expenditures of $219 and property acquisition costs of $954 associated with the McBride property.

d) Barrington property

During 2004, the company entered into an option agreement to earn a 100% interest in the Barrington property. During the year ended December 31, 2005, the company relinquished the Barrington property and wrote off property acquisition costs of $14,500 and deferred exploration costs of $64,130.

e) Other properties

During 2002, the company entered into agreements to acquire or earn interests in the Hemlo West, Amos, Yukon Olympic, Big Bulk and VMS properties. The company relinquished all of its interests in these properties in 2004 and, in 2005, wrote off additional deferred exploration expenditures of $12,351.

5 Capital stock

Authorized
Unlimited common shares without par value

Issued and outstanding

	Number of shares	Amount $
December 31, 2004	29,144,336	21,403,422
For cash	7,000,000	525,000
For mineral properties	50,000	2,750
For share issuance costs	170,030	8,503
Less: Share issuance costs	-	(8,503)
Future income tax effect of flow-through shares (note 8)	-	(119,420)
December 31, 2005	36,364,366	21,811,752
For cash	25,000	1,375
December 31, 2006	36,389,366	21,813,127

a) During 2006, the company issued 25,000 common shares on the exercise of warrants, in connection with the McBride property, for gross proceeds of $1,375.

b) During 2005:

i) the company issued 3,500,000 common shares and 3,500,000 flow-through common shares, and 170,030 common shares in payment of finder's fees, in connection with a private placement for which funds of $525,000 were received during 2004.

ii) the company issued, in connection with the McBride property, a total of 50,000 common shares at a fair value of $2,750, as well as warrants allowing for the purchase of up to 50,000 common shares at $0.055 per common share until May 17, 2006. The warrants were valued at $778.

Shareholder rights plan

The company has in place a shareholder rights plan (the Plan) which is designed to encourage the fair treatment of the company's shareholders in connection with any take-over offer and, in particular, any unsolicited take-over bid for the company.

Pursuant to the Plan, rights have been created and attached to the common shares of the company. If a person (the Bidder) acquires 20% or more of the outstanding voting shares of the company without complying with the Plan, each right, other than the rights held by the Bidder, will entitle the shareholder, other than the Bidder, to purchase for $30 common shares of the company having a market value of $60.

6 Stock option and warrant information

Stock options

In 2002, the company adopted a stock option plan (the Option Plan), as amended, authorizing the granting of stock options to qualified optionees to purchase a total of up to 7,262,873 common shares of the company.

Under the Option Plan, the term of stock options granted may not exceed five years following the date of grant, and the stock options must vest for a period of not less than 18 months from the date of grant, to be released and available for exercise at a rate of 25% of the number of options at the beginning of the first quarter commencing on the date of grant and at a rate of 12.5% at the beginning of each quarter thereafter.

The company applies the fair value method of accounting for stock options and, accordingly, the fair value of the vested portion of stock options granted in 2006 of $22,263 (2005 - $89,788) has been included in other expenses.

Common shares under option are as follows:

	Number of shares	Weighted average price $
Outstanding at December 31, 2004, 2005 and 2006	3,923,000	0.12

Stock options outstanding and exercisable at December 31, 2006 are as follows:

Number of stock options outstanding	Number of stock options exercisable	Exercise price $	Expiry date
1,365,000	1,365,000	0.15	January 3, 2008
100,000	100,000	0.15	August 21, 2008
2,458,000	2,458,000	0.10	September 17, 2009
3,923,000	3,923,000		

The fair value of stock options granted is estimated at the grant date based on the Black-Scholes option pricing model. No stock options were granted during the years ended December 31, 2005 and 2006.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions particularly stock volatility and the estimated life of the option can materially affect the fair value estimate.

Warrants

The changes in warrants outstanding are as follows:

	Number of warrants	Weighted average exercise price per share $
Outstanding at December 31, 2004	820,000	0.150
Expired	(820,000)	0.150
Granted	50,000	0.055
Outstanding at December 31, 2005	50,000	0.055
Exercised	(25,000)	0.055
Expired	(25,000)	0.055
Outstanding at December 31, 2006	-	

Contributed surplus

	2006 $	2005 $
Opening balance	438,591	348,025
Stock-based compensation expense	22,263	89,788
Fair value of warrants issued	-	778
Ending balance	460,854	438,591

7 Related party transactions

Badger & Co. Management Corp.

During the year ended December 31, 2006, the company was charged $5,088 (2005 - $53,388) for office operations and facilities, $4,852 (2005 - $37,935) for professional services, and $88 (2005 - $30,379) for exploration salaries and wages and project management fees by Badger & Co. Management Corp., a company owned by three of the directors or officers of the company. At December 31, 2006, the company owed $11,782 (2005 - $120,534) to Badger & Co. Management Corp.

Promissory notes

On February 2, 2006, the company arranged, subject to regulatory approval, the private placement of a $150,000 convertible promissory note with John S. Brock Limited, a company owned by two of the directors or officers of the company. The promissory note is unsecured, bears interest at 6% per annum and is due on demand. The principal amount of the promissory note was initially intended to be convertible at the holder's option into common shares of the company, for a maximum of five years, on the basis of one common share for every $0.165 of principal amount converted during the first two years. The application for regulatory approval of the convertible note was withdrawn.

On October 23, 2006, two of the directors or officers of the company advanced a further $25,000, in the aggregate, subject to promissory notes. The promissory notes are subject to interest at 6% per annum and are due on demand.

In connection with the promissory notes, the company owed $183,534 for principal and interest charged (note 9).

8 Income taxes

A reconciliation of the combined Canadian federal and provincial income taxes at statutory rates and the company's effective income tax expense is as follows:

	2006 **$**	**2005** **$**
Income taxes at statutory rates	18,538	(552,600)
Non-deductible (income) expenses	(25,379)	31,309
Reduction in federal tax rates and other	446,538	-
Change in valuation allowance	(439,697)	401,871
Future income tax recovery	-	(119,420)

Under the provisions of Canadian Institute of Chartered Accountants (CICA) Emerging Issues Committee (EIC) 146, in respect of flow-through shares, a future income tax liability must be recognized, and shareholders' equity reduced, on the date that the company renounces the tax credits associated with flow-through expenditures, provided that there is reasonable assurance that the expenditures will be made.

Where the company has unrecognized future tax assets and the taxable temporary differences relating to the flow-through shares are expected to reverse during the loss carry-forward period, these tax assets can be applied against the full taxable temporary difference. The recognition of the benefits results in a future income tax recovery.

The components of future tax assets are as follows:

	2006 $	**2005 $**
Resource assets	360,481	431,015
Non-capital loss carry-forwards	570,270	760,911
Capital loss carry-forward	1,773,785	1,952,307
	2,704,536	3,144,233
Less: Valuation allowance	(2,704,536)	(3,144,233)
Future income tax asset	-	-

At December 31, 2006, the company had approximately $1,804,000 of losses available for carry-forward. The loss carry-forwards can be offset against income for Canadian income tax purposes in future years and expire in periods from 2007 to 2016.

9 Subsequent events

On February 23, 2007, the company changed its name to X-Terra Resources Corporation and consolidated its share capital as to 10 old shares of Canadian Empire Exploration Corp. for one new share in the capital of X-Terra Resources Corporation.

On March 15, 2007, the company announced that, subject to regulatory approval, it proposes to issue an aggregate 459,485 common shares, at a deemed price of $0.56 per share, in settlement of indebtedness in the aggregate amount of $257,312. The indebtedness to be settled includes the promissory note of February 2, 2006, the promissory notes of October 26, 2006, and the $70,154 receivable by Badger & Co. which was initially forgiven in 2006.