



X-TERRA RESOURCES CORPORATION
(FORMERLY CANADIAN EMPIRE EXPLORATION CORP.)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
THREE-MONTHS PERIOD ENDED MARCH 31, 2008 AND 2007
(unaudited)

FINANCIAL STATEMENTS

Consolidated Balance Sheets

Consolidated Statements of Operations, Comprehensive loss and Deficit

Consolidated Cash Flows

Notes to Interim Consolidated Financial Statements

The interim consolidated financial statements which are included in this report have not been subject to a review by the Company's external auditors.

X-TERRA RESOURCES CORPORATION (FORMERLY CANADIAN EMPIRE EXPLORATION CORP.)

CONSOLIDATED BALANCE SHEETS

As at March 31, 2008 and December 31, 2007

	MARCH 31 2008	DECEMBER 31 2007
	(unaudited) \$	(audited) \$
Going concern assumption (note 2)		
Assets		
Current assets		
Cash (note 4)	439,261	472,356
Restricted cash	500	500
Taxes receivable	5,906	15,628
Prepaid expenses	<u>11,917</u>	<u>-</u>
	457,584	488,484
Mining properties (note 5)	976,521	975,864
Deferred exploration expenses (note 6)	<u>59,135</u>	<u>47,430</u>
	<u>1,493,240</u>	<u>1,511,778</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	<u>75,628</u>	<u>51,222</u>
Shareholders' Equity (Deficiency)		
Capital stock (note 7)	23,195,520	23,195,520
Warrants	511,185	511,185
Contributed surplus (note 8)	550,779	532,794
Deficit	<u>(22,839,872)</u>	<u>(22,778,943)</u>
	<u>1,417,612</u>	<u>1,460,556</u>
	<u>1,493,240</u>	<u>1,511,778</u>

ON BEHALF OF THE BOARD,

(s) Laurent Hallé, Director

(s) Sébastien Plouffe, 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 OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT**

For the three months period ended March 31, 2008 and 2007

	2008	2007
	\$	\$
Going concern assumption (note 2)		
Administrative expenses		
Insurance	2,383	-
Professional fees	2,612	772
General administrative expenses	35,725	3,953
Shareholder's communication	-	1,533
Transfer agent and regulatory fees	5,886	6,925
Stock-based compensation	<u>17,985</u>	<u>-</u>
	<u>64,591</u>	<u>13,183</u>
Other expenses (Income)		
Interest income	(3,662)	-
General exploration expenses	<u>-</u>	<u>910</u>
	<u>(3,662)</u>	<u>910</u>
Net loss and comprehensive loss for the period	<u>60,929</u>	<u>14,093</u>
Deficit - Beginning of period	<u>22,778,943</u>	<u>22,487,525</u>
Deficit - End of period	<u>22,839,872</u>	<u>22,501,618</u>
Basic and diluted loss per share	<u>0.00</u>	<u>0.00</u>

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

X-TERRA RESOURCES CORPORATION (FORMERLY CANADIAN EMPIRE EXPLORATION CORP.)**CONSOLIDATED CASH FLOWS**

For the three months period ended March 31, 2008 and 2007

	2008	2007
	\$	\$
Going concern assumption (note 2)		
Operating activities		
Net loss for the period	(60,929)	(14,093)
Adjustment for		
Stock-based compensation	<u>17,985</u>	<u>-</u>
	(42,944)	(14,093)
Changes in non-cash operating working capital items	<u>22,211</u>	<u>7,863</u>
	<u>(20,733)</u>	<u>(6,230)</u>
Investing activities		
Mining properties and maintenance costs	(657)	-
Deferred exploration expenses	<u>(11,705)</u>	<u>-</u>
	<u>(12,362)</u>	<u>-</u>
Decrease in cash and cash equivalents during the period	(33,095)	(6,230)
Cash and cash equivalents - Beginning of period	<u>472,356</u>	<u>13,987</u>
Cash and cash equivalents - End of period	<u><u>439,261</u></u>	<u><u>7,757</u></u>

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

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007**

(unaudited)

1 Nature of operations

The Company is in the business of acquiring, exploring and developing mining properties. At March 31, 2008, the Company holds the Villedieu, Lindsay and Cool Lake properties.

As at March 31, 2008, the Company had cash of \$439,261 and working capital of \$381,956.

The interim consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles, except that they do not contain all disclosures as required for annual financial statements. The interim consolidated financial statements have been prepared following the same accounting policies as for the consolidated financial statements for the year ended December 31, 2007 except as noted. Accordingly, they should be read in conjunction with the 2007 consolidated financial statements and the notes thereto.

In the opinion of management, all adjustments considered necessary for fair presentation of the results for the periods presented have been reflected in the interim consolidated financial statements.

2 Going concern assumption

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis whereby it is assumed that the Company will realize its assets and assume its liabilities in the normal course of business.

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain ore reserves. The recoverability of the amounts shown for mineral properties and related deferred expenditures is dependent upon the ability of the Company to obtain the necessary financing to complete exploration and development and upon future profitable production or proceeds from the disposition of properties. The Company will have to raise additional funds to complete the development phase of its programs and, while it has been successful in doing so in the past, there can be no assurance that it will be able to do so in the future. The application of generally accepted accounting principles on a going concern basis may be inappropriate, since there is a significant doubt as to the going concern assumption.

The financial statements do not reflect the adjustments to the carrying value of assets and liabilities, the reported amounts of revenues and expenses and the classification of balance sheet items if the going concern assumption were inappropriate, and these adjustments could be material. Management did not take these adjustments into account as it believes in the validity of the going concern assumption.

3 New accounting standards

On January 1, 2008, the Company adopted new accounting standards related to general standard of financial statement presentation, capital disclosure and financial instruments that were issued by the Canadian Institute of Chartered Accountants ("CICA"). The new CICA standards are as follows:

Section 1400, *General Standard of Financial Statement Presentation*

This section specifies requirements to assess an entity's ability to continue as a going concern and disclose any material uncertainties that cast doubt on its ability to continue as a going concern. The Company disclosure reflects such assessment.

Section 1535, *Capital Disclosures*

This section specifies the disclosure of information that enables users of an entity's financial statements to evaluate its objectives, policies and processes for managing capital such as qualitative information about its objectives, policies and processes for managing capital, summary quantitative data about what the entity manages as capital, whether it has complied with any capital requirements and, if it has not complied, the consequences of non-compliance. Disclosure requirements pertaining to this section are contained in note 7.

X-TERRA RESOURCES CORPORATION (FORMERLY CANADIAN EMPIRE EXPLORATION CORP.)**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007**

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Section 3862, *Financial Instruments Disclosures***Section 3863, *Financial Instruments Presentation***

These sections replace Section 3861, *Financial Instruments Disclosure and Presentation*, revising and enhancing disclosure requirements while carrying forward its presentation requirements. These new sections place increased emphasis on disclosure about the nature and extent of risk arising from financial instruments and how the entity manages those risks. Disclosure requirements pertaining to this section are contained in note 11.

4 Cash

As at March 31, 2008, cash includes an amount of \$261,465 (2007 – nil) reserved for new exploration activities to be conducted in Canada before December 31, 2008 (note 10).

5 Mining properties

	Balance December 31, 2007	Addition	Balance March 31, 2008
	\$	\$	\$
Villedieu (100 %)	544,570	-	544,570
Lindsay (100%)	431,294	409	431,703
Cool Lake (100%)	<u>-</u>	<u>248</u>	<u>248</u>
	<u>975,864</u>	<u>-</u>	<u>976,521</u>

6 Deferred exploration expenses

	Balance December 31, 2007	Addition	Balance March 31, 2008
	\$	\$	\$
Villedieu (100 %)	600	-	600
Lindsay (100%)	<u>46,830</u>	<u>11,705</u>	<u>58,535</u>
	<u>47,430</u>	<u>11,705</u>	<u>59,135</u>

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007**

(unaudited)

	3 Months ended March 31, 2008 \$	3 Months ended March 31, 2007 \$
Exploration costs		
Accommodations	2,000	28
Maps, printing and drafting	-	13
Assay and geochemical analysis	4,825	-
Geology	1,300	-
Geophysics	2,730	-
Project management fees	850	67
Salaries and wages	<u>-</u>	<u>802</u>
	11,705	910
General exploration expenses	<u>-</u>	<u>(910)</u>
Increase in deferred exploration expenses	11,705	-
Deferred exploration expenses - Beginning of period	<u>47,430</u>	<u>-</u>
Total deferred exploration expenses - End of period	<u><u>59,135</u></u>	<u><u>-</u></u>

7 Capital stock and warrants

Authorized: Unlimited common shares without par value, of which 6,776,671 common shares were issued as at March 31, 2008 (December 31, 2007: 6,776,671).

The Company defines its capital as the shareholder's equity and cash.

The Company's capital management objectives are to:

- have sufficient capital to be able to meet the Company's mining properties exploration and mining development plan in order to ensure the growth of the activities.
- have sufficient cash to fund the exploration expenses and investing activities and the working capital requirements.

Warrants

The following table details the changes in the Company's warrants:

	Number of warrants	Amount \$
Balance as at December 31, 2007	1,587,998	511,185
Granted during the period	<u>-</u>	<u>-</u>
Balance as at March 31, 2008	<u><u>1,587,998</u></u>	<u><u>511,185</u></u>

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007**

(unaudited)

7 Capital stock and warrants (continued)

Information relating to warrants outstanding as at March 31, 2008 is as follows:

Expiry date	Number of warrants outstanding	Exercise price \$
May 2009	1,000,000	0.70
October 2009*	161,332	0.75
October 2009	<u>426,666</u>	1.00
	<u>1,587,998</u>	

* These include 27,999 finder options which expire in October 2009. Each finder option entitles the holder to subscribe for an equal number of units in consideration for \$0.60, composed of one share and one warrant at a price of \$0.75.

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 maximum of 10% of the number of outstanding issued common shares of the Company at any time. This is referred to as a "rolling plan".

Under the Option Plan, 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 for the period is \$17,985 has been included in administrative expenses.

The following table summarizes the information relating to the share purchase options as at March 31, 2008.

	Options outstanding	Weighted average exercise price \$
Balance as at December 31, 2007	184,900	1.11
Expired	<u>7,500</u>	1.50
Balance as at March 31, 2008	<u>177,400</u>	1.09

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007

(unaudited)

Information relating to options outstanding and exercisable as at March 31, 2008 is as follows:

Expiry Date	Options outstanding	Options exercisable	Exercise price \$
September 17, 2009	12,400	12,400	1.00
June 14, 2012	<u>165,000</u>	<u>103,125</u>	1.10
	<u>177,400</u>	<u>115,525</u>	

8 Contributed surplus

The following table details the changes in the Company's contributed surplus:

	2008 \$
Balance - Beginning of year	532,794
Stock-based compensation	<u>17,985</u>
Balance - End of period	<u>550,779</u>

9 Related party transactions

The Company is engaged in a lease contract for an office at Rouyn-Noranda with a company controlled by a director and an officer of X-Terra Resources Corporation. During the period, the Company incurred \$6,000 for this leasing.

These transactions are in the normal course of operations and are consistent with industry standards.

10 Commitments

The Company is committed to incurring Canadian exploration expenses of \$320,000 by December 31, 2008, with regard to the transfer of these expenditures to the subscribers of its flow-through share underwriting completed on October 3, 2007. As at March 31, 2008, \$58,535 has been incurred against this commitment.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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(unaudited)

11 Financial risk factors

The Company's activities are exposed to financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

a) Market risks

i) Fair value

The carrying amount of all financial assets and liabilities, as reported on the consolidated balance sheet, approximate their fair value due to the relatively short-term maturities of these instruments.

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

ii) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. All current financial assets and liabilities are not exposed to interest rate risk because of their short-term nature and non-interest bearing.

iii) Currency risk

The Company is not exposed to currency fluctuations as all transactions occur in the functional and reporting currency.

b) 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. Financial instruments that potentially subject the Company to credit risk consist of cash and tax receivable. The Company has reduced its credit risk by investing its cash with a Schedule 1 Canadian chartered bank. Also, as the majority of its receivables are with the governments of Quebec and Canada in the form of sales tax receivables and government's incentives, the credit risk is minimal.

c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet the obligations associated with its financial liabilities. At the end of March 2008, the Company had enough funds available to meet its financial liabilities and future financial liabilities from its commitments for the current year.

12 Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted for the period ended March 31, 2008.