

X-TERRA RESOURCES CORPORATION (FORMERLY CANADIAN EMPIRE EXPLORATION CORP.)
INTERIM CONSOLIDATED REPORT
SIX-MONTH PERIOD ENDED JUNE 30, 2007 (unaudited)

FINANCIAL STATEMENTS

Consolidated Balance Sheets

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X-Terra Resources Corporation

(Formerly Canadian Empire Exploration Corp.)

1100 - 1199 West Hastings St.

Vancouver, B.C. V6E 3T5

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

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

CONSOLIDATED BALANCE SHEETS

	JUNE 30 2007	DECEMBER 31 2006
	(unaudited) \$	(audited) \$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	346,224	13,987
Taxes receivable	<u>11,158</u>	<u>110</u>
	357,382	14,097
Mining property (Note 3)	<u>544,500</u>	<u>-</u>
	<u>901,882</u>	<u>14,097</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	70,311	32,325
Due to related party	-	11,782
Promissory notes due to related parties	<u>-</u>	<u>183,534</u>
	<u>70,311</u>	<u>227,641</u>
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Capital stock (Note 4)	22,712,011	21,813,127
Warrants	355,000	-
Contributed surplus	496,824	460,854
Deficit	<u>(22,732,264)</u>	<u>(22,487,525)</u>
	<u>831,571</u>	<u>(213,544)</u>
	<u>901,882</u>	<u>14,097</u>

ON BEHALF OF THE BOARD,

(s) Laurent Hallé, Director

(s) Sébastien Plouffe, Director

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

CONSOLIDATED STATEMENT OF DEFERRED EXPLORATION EXPENSES

Three-month periods ended June 30 / Six-month periods ended June 30

	2007	2006	2007	2006
(unaudited)	\$	\$	\$	\$
EXPLORATION EXPENSES				
Accommodation	-	-	28	-
Expediting	-	-	-	1
Maps, printing and drafting	-	766	13	841
Project management fees	-	82	67	88
Property acquisition costs	-	-	-	953
Salaries and wages	-	259	802	259
INCREASE OF DEFERRED EXPLORATION EXPENSES	-	1,107	910	2,142
GENERAL EXPLORATION EXPENSES	-	66	(910)	(969)
WRITE-OFF OF EXPLORATION EXPENSES	-	(219)	-	(219)
WRITE-OFF OF MINING PROPERTY EXPENSES	-	(954)	-	(954)
BALANCE, BEGINNING	-	-	-	-
BALANCE, ENDING	-	-	-	-

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

CONSOLIDATED STATEMENTS OF LOSS

Three-month periods ended June 30 / Six-month periods ended June 30

(unaudited)	2007 \$	2006 \$	2007 \$	2006
INTEREST REVENUE AND OTHER	719	-	719	-
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ADMINISTRATIVE EXPENSES				
Bank charges	140	123	375	256
Foreign exchange loss	342	69	428	35
Insurance	16,000	1,700	16,000	1,700
Professional fees	135,536	8,616	136,308	12,627
General administrative expenses	17,423	2,377	21,055	4,970
Shareholder's communication	1,497	1,604	3,030	2,455
Transfer agent and regulatory fees	<u>24,457</u>	<u>18,660</u>	<u>31,382</u>	<u>24,855</u>
	<u>195,395</u>	<u>33,149</u>	<u>208,578</u>	<u>46,898</u>
OTHER EXPENSES (INCOME)				
Stock-based compensation	35,970	-	35,970	22,262
General exploration expenses	-	(66)	910	969
Write-off of exploration expenses	-	219	-	219
Write-off of mining property	-	954	-	954
Forgiveness of amount due to related party	<u>-</u>	<u>(70,154)</u>	<u>-</u>	<u>(70,154)</u>
	<u>35,970</u>	<u>(69,047)</u>	<u>36,880</u>	<u>(45,750)</u>
NET LOSS (NET EARNINGS)	<u>230,646</u>	<u>(35,898)</u>	<u>244,739</u>	<u>1,148</u>
BASIC AND DILUTED LOSS (EARNINGS) PER SHARE	<u>0.06</u>	<u>(0.00)</u>	<u>0.06</u>	<u>0.00</u>

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

CONSOLIDATED DEFICIT

Three-month periods ended June 30 / Six-month periods ended June 30

	2007	2006	2007	2006
(unaudited)	\$	\$	\$	\$
BALANCE, BEGINNING	(22,501,618)	(22,578,903)	(22,487,525)	(22,541,857)
Net earnings (net loss)	<u>(230,646)</u>	<u>35,898</u>	<u>(244,739)</u>	<u>(1,148)</u>
BALANCE, ENDING	<u>(22,732,264)</u>	<u>(22,543,005)</u>	<u>(22,732,264)</u>	<u>(22,543,005)</u>

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

CONSOLIDATED CONTRIBUTED SURPLUS AND WARRANTS

Three-month periods ended June 30 / Six-month periods ended June 30

(unaudited)	2007	2006	2007	2006
	\$	\$	\$	\$
CONTRIBUTED SURPLUS				
BALANCE, BEGINNING	460,854	460,853	460,854	438,591
Options granted under the plan	<u>35,970</u>	<u>-</u>	<u>35,970</u>	<u>22,262</u>
BALANCE, ENDING	<u>496,824</u>	<u>460,853</u>	<u>496,824</u>	<u>460,853</u>
WARRANTS				
BALANCE, BEGINNING	-	-	-	-
Warrants issued during the period	<u>355,000</u>	<u>-</u>	<u>355,000</u>	<u>-</u>
BALANCE, ENDING	<u>355,000</u>	<u>-</u>	<u>355,000</u>	<u>-</u>

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

CONSOLIDATED CASH FLOWS

Three-month periods ended June 30 / Six-month periods ended June 30

(unaudited)	2007 \$	2006 \$	2007 \$	2006 \$
OPERATING ACTIVITIES				
Net earnings (Net loss)	(230,646)	35,898	(244,739)	(1,148)
Items not involving cash:				
Stock-based compensation	35,970	-	35,970	22,263
Write-off of exploration expenses	-	219	-	219
Write-off of mining property	-	954	-	954
Net change in non-cash operating working capital items	<u>24,858</u>	<u>(63,312)</u>	<u>26,938</u>	<u>(190,789)</u>
	(169,818)	(26,241)	(181,831)	(168,501)
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FINANCING ACTIVITIES				
Cash inflow relating to capital stock and warrants	560,000	1,375	560,000	1,375
Convertible debt	-	-	-	150,000
Due to related party	(17,565)	-	(11,782)	-
Share issuance expenses	<u>(34,150)</u>	<u>-</u>	<u>(34,150)</u>	<u>-</u>
	508,285	1,375	514,068	151,375
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INVESTING ACTIVITIES				
Property acquisition and maintenance costs	-	(953)	-	(953)
Deferred exploration expenses	-	(219)	-	(219)
Reclamation deposit returned	<u>-</u>	<u>11,300</u>	<u>-</u>	<u>11,300</u>
	-	10,128	-	10,128
	-----	-----	-----	-----
Cash increase (decrease)	338,467	(14,738)	332,237	(6,998)
Cash, beginning	<u>7,757</u>	<u>25,190</u>	<u>13,987</u>	<u>17,450</u>
Cash, ending	<u><u>346,224</u></u>	<u><u>10,452</u></u>	<u><u>346,224</u></u>	<u><u>10,452</u></u>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007

(unaudited)

1 - NATURE OF OPERATIONS AND GOING CONCERN

The Company is in the business of acquiring, exploring and developing mining properties. At June 30, 2007, the Company holds the rights to the Villedieu property.

As at June 30, 2007, the Company had cash and cash equivalents of \$346,224 and working capital of \$287,071.

The Company's ability to continue operating 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.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation.

2 - SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a basis consistent with those outlined in the Company's audited financial statements for the year ended December 31, 2006 except as described below. These notes do not include all of the information and disclosures required by Canadian generally accepted accounting principles for audited financial statements. These interim financial statements should be read in conjunction with the most recent annual financial statements of the Company.

Effective January 1, 2007 the Company was required to adopt the new Canadian Accounting Standards Board accounting standards dealing with the recognition, measurement and disclosure of financial instruments, hedges and comprehensive income, together with many consequential changes throughout the CICA Handbook. The adoption of these new standards had no significant impact on the Company's financial statements.

3 - MINING PROPERTY

	Balance as at December 31, 2006	Addition	Diminution	Balance as at June 30, 2007
Villedieu (100 %)	_____ -	_____ 544,500	_____ -	_____ 544,500
	===== -	===== 544,500	===== -	===== 544,500

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

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007**

(unaudited)

4 - CAPITAL STOCK

Authorized:

Unlimited common shares without par value

Changes in Company capital stock were as follows:

	Number	Amount \$
Balance as at December 31, 2006	3,638,933	21,813,127
Paid in cash (1)	1,000,000	205,000
Mining property	550,000	544,500
Debt settlement	327,739	183,534
Share issuance expenses	<u>-</u>	<u>(34,150)</u>
Balance as at June 30, 2007	<u>5,516,672</u>	<u>22,712,011</u>

On February 23, 2007, the Company changed its name from Canadian Empire Exploration Corp. to X-Terra Resources Corporation and consolidated its capital stock as to 10 old shares of Canadian Empire Exploration Corp. for 1 new share of X-Terra Resources Corporation.

(1) Value of capital stock paid in cash is presented net of the fair value of warrants amounting to \$355,000.

Share Purchase Options

The following table summarizes the information relating to the share purchase options as at June 30, 2007.

	Options outstanding	Weighted average exercise price \$
Balance as at December 31, 2006	392,300	1.20
Granted during the period	165,000	1.10
Cancelled	<u>(8,000)</u>	1.16
Balance as at June 30, 2007	<u>549,300</u>	1.16

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

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007**

(unaudited)

4 - CAPITAL STOCK (continued)

Options outstanding	Price \$	Weighted average remaining contractual life
134,000	1.50	0.6
10,000	1.50	1.2
240,300	1.00	2.3
<u>165,000</u>	1.10	5
<u><u>549,300</u></u>		
Options exercisable		
<u><u>425,550</u></u>		

Warrants

The following table summarizes the information relating to warrants as at June 30, 2007.

	Warrants outstanding	Weighted average exercise price \$
Balance as at December 31, 2006	-	-
Granted during the period	<u>1,000,000</u>	0.70
Balance as at June 30, 2007	<u><u>1,000,000</u></u>	0.70

Warrants outstanding	Price \$	Expiry Date
1,000,000	0.70	May 28, 2009

5 - RELATED PARTY TRANSACTIONS

Until June 14, 2007, the Company had management agreements with Badger & Co. Management Corp., a private company owned by certain individuals who were directors and/or senior officers of the Company until June 14, 2007. Pursuant to these agreements, the Company was charged from January 1 to June 30, 2007 for the following :

- Cost of operations and administration : \$7,543
- Fees for professional services provided at per diem rates : \$7,331
- Exploration salaries and wages and project management fees : \$136